CHAPTERS ON

PRACTICAL POLITICAL ECONOMY.

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PRACTICAL POLITICAL ECONOMY

BEING THE

SUBSTANCE OF LECTURES DELIVERED IN THE UNIVERSITY OF OXFORD.

BONAMY PRICE,

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CHAPTER I.

IS POLITICAL ECONOMY A SCIENCE?

THE following pages speak of Practical Political Economy. The expression might seem to denote a particular department of what is called Political Economy, or else a special application of its truths. I do not use the term in either of these senses. I mean by it simply Political Economy itself. The word Practical is added solely in contradistinction to what may be called Scientific Political Economy. It is intended to indicate a mode of treatment which not only does not claim to be scientific, but which supposes the strictly scientific method to be a mistake. It implies that the body of knowledge, summed up under the title of Political Economy, belongs entirely to the every-day practice of human life.

Political Economy finds processes applied all the world over to the satisfaction of the wants of human life in the matter of wealth. It does not invent nor discover them. It does not announce them, like the developments of geometry or the generalisations of physical science, as new discoveries previously unknown, but now revealed by the application of systematic reasoning. The ordinary instincts of human nature

have adopted these processes ever since the origin of man with more or less sagacity and intelligence. Political Economy studies them, discerns intellectually in what their essence and vitality consist, explains them to the understandings of common men, and performs the vast service of clearing them from that admixture of error, both of thought and action, which insinuates itself into every department of human existence. But when these processes have been thus explained, and rescued from that evil and indestructible weed, false theory, they are seen to be practices which multitudes of men of all ages of the world have carried out with a full perception that they were the right thing to do. They did not owe them to Political Economy, though Political Economy has strengthened the insight into their rightness, and has saved them from the invasion of arbitrary and erroneous ideas. Indeed it may be almost doubted whether Political Economy ever would have been born, had not the selfishness and folly of men and nations crushed the instinctive impulses of human nature. If the mercantile theory and protection had not weighed heavily on the common sense of mankind, there might have been a Political Economy of the closet or of sociology—and for how much would it have counted amongst the nations?—a Political Economy for the people would never, probably, have been constructed.

If this conception of Political Economy be correct, it will be perceived at once that its value lies in its being understood by the mass of men. Here is its true field of action and influence. Its aim is to make common sense the supreme ruler of industry and trade. The test of a true Political Economy is that its teaching, its

principles, its arguments, and above all its language, shall be intelligible to all. It addresses as its real audience the labourers of the field and of the factories, the manufacturers and the merchants, the shopkeepers and the legislators, in a word the whole community; and it is bound to use language which they can recognise to be true. If it shoots over their heads, it has missed its vocation. It may amuse speculative thinkers, but it ceases to be a power and to have value of any importance.

So wild indeed has been this passion for scientific treatment, that Political Economy has been translated into mathematical formulas. Trade and the practice of traders, written out in the language of the differential calculus, is indeed a masterpiece of scientific achievement. But will mathematical figures ever convince a people that they act foolishly in protecting their native industries with high tariffs, or explain why different prices prevail for the same goods in a single town, or teach labourers whether a strike is likely to bring them better wages, or show why two farms of equal fertility pay very different rents?

Of this practical kind is the Political Economy of "The Wealth of Nations." Adam Smith placed his discussions in the very heart of the every-day life of men. He dealt with the problems which present themselves to the man of business and the workman. His language every merchant and every trader could understand. His reasonings were of a kind with which all are familiar. The thought that he was founding a science is absent from his economical writings. The questions he took up were the blunderings of great merchants and mighty

which was known to be edited by an eminent economical writer, and which speaks of the dulness of modern books of Political Economy, and characterises the teaching of Mr Ricardo—a name associated with the glory of having commenced the scientific treatment—"as beginning in dry principles, and going with unappreciated reasoning to conclusions that are as dry." Political Economy is painted as "declining in credit," as speaking in a lower tone of command than "The Wealth of Nations."

To be accused of contradicting Political Economy is an argument which now carries less weight than it did formerly. The man to whom it is addressed will probably think that what is quoted to him as a law is probably no law at all. He feels that he can obtain what it is important for him to learn in some easier way by the aid of his natural lights. Thus there arises a marked peculiarity in the view taken by the world of ignorance of Political Economy and ignorance of any real science. The mass of men do not study chemistry or astronomy. They know that this lies beyond their power. But they know also that these sciences possess extremely important information which very closely concerns them, and they are thoroughly willing to follow the rules and prescriptions laid down by astronomers and chemists, without understanding in any way the proofs on which they rest. The dyer and the intelligent farmer do as chemistry bids them. The mariner takes observations of the sun and moon, compares the figures he obtains from his quadrant with their interpretation in his tables, and shapes his course accordingly with safety. It is wholly otherwise

with ignorance of Political Economy. The common world think that they understand the matters of which it speaks quite as well as the economist, indeed much better. Why should they trouble themselves about advice which has for them no recommendation of superior skill or experience? The protectionist feels no lack of excellent arguments wherewith to refute the free trader. The trades unionist has no misgiving but that his ideas on wages are unanswerable. What need is there for them to plunge into the jargon of economical writings? They do not speak as men of the world speak of things which they handle every day. The final result is that the very service which Political Economy has to render to a people—and it is of the very highest—is lost.

This is a very grave matter. I do not say that the practical truths of Political Economy are less appreciated by the world, have less influence over governments and traders; on the contrary, they are making steady progress in guiding conduct. But it is certain that in adopting any particular commercial view or practice they give less and less as their reason that Mr Ricardo, or Mr Mill, or Professor Cairnes has advised it. They arrive at their judgments through their own untrained sagacity, and not through the teaching of authorities who must be taken as guides. It is the authority of economical writers which is declining. This diminished weight is the result of their mode of treating the problems of the living world with which Political Economy deals; men take a shorter and a far clearer path through their own observations than through the tangled jungle of scientific refinements.

The remedy is to remove the cause of the decaying influence of writers of distinguished ability and of great ardour in the study of this subject. Their error must be dispelled: there must be a change of method. But is there error? they will reply. Political Economy is a science, and if it is a science the scientific treatment is the true one and must in the end prevail. The question then must be faced—Is Political Economy a science? To obtain an answer a prior inquiry must be met: What is Political Economy?

It is scarcely possible to put a more difficult question. An accurate and precise answer to it has never yet been given, and never will be. Adam Smith's great work is entitled "An Inquiry into the Nature and Causes of the Wealth of Nations." This description has led to the definition commonly given of Political Economy, as the science of the production and distribution of wealth. Wealth, then, is its subject, what it speaks of; but what is wealth? Here, again, we have a question as hard and puzzling as ever. In his first sentence, Adam Smith seems to explain wealth as "the necessaries and conveniences of life which a nation annually consumes." Vague enough, most assuredly; but then Adam Smith never attempted to frame a scientific definition of wealth; he used the word in its popular sense, as a well-known thing. It never occurred to him that he had taken up a science, and must treat it as such.

Mr Mill feels quite differently. All through his treatise he regards Political Economy as a science: his method always aspires to be scientific; yet even at starting he gives up all scientific definition of wealth.

He distinctly takes as the foundation of his exposition of the principles of Political Economy the popular, unexplored, current definition of wealth. "Every one has a notion," he remarks, "sufficiently correct, of what is meant by wealth." His reason for this sufficiency is remarkable. Enquiries which relate to wealth are in no danger of being confounded with those relating to any other of the great human interests. All know that it is one thing to be rich, another thing to be enlightened, brave, or humane. Mr Mill does not tell us what wealth—the thing he has to explain—is; he bids us ask the first man we meet in the street, what are riches? that is sufficient. Hardly for making a science out of it surely.

After this we can easily understand the feeling of Professor Perry of Williams College, United States. He flings away the word wealth in anger. In his, in many respects, very able work, "The Elements of Political Economy," he declares it to have been the "bane of Political Economy. It is the bog whence most of the mists have arisen which have beclouded the whole subject. From its indefiniteness and the variety of associations it carries along with it in different minds, it is totally unfit for any scientific purpose whatever. It is simply impossible on such an indefinite word as this at the foundation to build up a complete science of Political Economy. Men may think, and talk, and write, and dispute to weariness, but until they come to use words with definiteness and mean the same thing by the same word, they reach comparatively few results, and make but little progress." "Hence," he concludes. "happily there is no need to use this word;" for which

he substitutes service. In this I am unable to agree with him. Wealth is the word which belongs to the world which Political Economy addresses. The remedy of what the Professor complains of is, to abandon the idea of science, and to use the expression wealth in its popular and practical signification. Men do not want scientific utterances from Political Economists, and if they did they would never get them—but practical explanations of every-day operations.

If we pass on from wealth itself to its production, we shall find that we are getting deeper into vagueness and absence of science. By the unanimous admission of all writers those operations which directly produce wealth are outside of Political Economy altogether. Political Economy does not profess to teach the farmer when to sow his seed, what manure to apply, what rotation of crops to adopt, and yet these are the very things which produce, which bring forth, the crop of wheat, which is the wealth desired. Nor does it explain to the makers of iron, or of woollen or cotton cloths, or of ships, how to manufacture these things. These are all the great processes which create wealth, and bring it into being; but obviously Political Economy does not embrace all the arts, or attempt to explain the proper way of producing goods. How then is Political Economy to be called the science of the production of wealth, when that very production of wealth, in its plain and most extensive sense, clearly does not belong to it? A definition of a science sums up its subject: How is it possible to speak of a science when avowedly by far the largest part of the matter included in its definition does not come under its consideration? If Political Economy

is a science, the question must be answered: Of what is it the science? Of the production of wealth it certainly is not.

But Political Economy has found a distinguished champion to vindicate its right to be accounted a science. At the Centennial meeting of the Political Economy Club, of which mention has already been made, the task of explaining the nature of the work of Adam Smith, and enforcing his title to the admiration and gratitude of mankind was entrusted to Mr Lowe, and no one could speak with higher authority. On that occasion Mr Lowe undertook to show that Adam Smith was the founder of a great science, and that that science was Political Economy. He claims for Adam Smith, "the power of having raised Political Economy to the dignity of a true science, the merit, the unique merit among all men who ever lived in the world, of having founded a deductive and demonstrative science of human actions and conduct: the merit in which no man can approach him, that he was able to treat subjects of the kind with which Political Economists deal by the deductive method." Beyond doubt a deductive science of human actions is unique amongst men, and wonderful indeed is the discovery that this demonstrative science of human conduct should be precisely Political Economy. One would wish to know what are the axioms and definitions which by syllogistic reasoning were developed into that model of scientific treatment, "The Wealth of Nations." Mr Lowe finds no difficulty in telling us. He builds his proof on two grounds.

1. Adam Smith, the father of this deductive science,

"was in the habit of saying in the course of his writings—men do so and so, which means in his way of writing, men do so and so, and men will do so and so to the end of the chapter." "The test of science," he tells us, "is prevision or prediction. By foretelling human actions and conduct with certainty, Adam Smith created a deductive and demonstrative science, now called Political Economy."

But where is a single certain prediction of human conduct to be found in his writings which proves him to have been the creator of a science? Men are presumed to be keen in the pursuit of riches, and to be sure to act always for their interest, but, unhappily, they are found not to do so and so, even here, to the end of the chapter. They rush into ruinous wars from passion. They know that the way to be rich is to labour, and they prefer idleness. Whole nations like better to bask in the sun than to take the trouble to accumulate wealth. They are well aware that the tradesmen with whom they deal oppress them with unjust prices; they will not be at the pains to seek out the shops where good commodities are to be had at fair rates, thus making the boasted economical principle of competition to be anything but universal. Saving they would confess to be the foundation of wealth and the security for old age; they spend all they can on drink. Governments and peoples have been taught the reasonableness and profitableness of Free Trade: they persist in Protection. "The Wealth of Nations" was written to paint the folly of the Mercantile Theory, and few educated men in England would like to confess their belief in it; but it lives on nevertheless with indestructible vitality. It reigns

supreme in all the Stock Exchanges of the world, and every merchant and shopkeeper loves to hear that exports exceed imports. A child can lead a horse to the water, Archbishop Whately was fond of saying; but twenty men cannot make him drink. Adam Smith laid down clear principles, but he could induce only a few men and governments to act upon them. Were he alive now he would be ruined as a man of science by the "will do so and so to the end of the chapter" theory.

2. But, secondly, we are told that Adam Smith built up not only a demonstrative science of human conduct, but also a deductive science of argued-out and correlated doctrine. But where shall we find such a standard of teaching throughout the whole range of Political Economy? Will it be the greatest of the truths of Free Trade? But Free Trade is not the child of scientific skill upon the deductive method. The doctrine of Free Trade is only the explanation and enforcement against selfish perverseness of a very common practice, known and observed by all men: to the women the needle work, to the men the lifting of weights. Whoever regulates his household differently, and compels the needle work and the muscular effort to be distributed equally amongst the men and the women, is a fool. Let Norfolk grow our barley and Sheffield our knives; what sane man would dream of wishing it otherwise? Free-Trade is nothing but this—the widest application of this practice. But is this a revelation won by the intellectual elaboration of a deductive process? So again with the Mercantile Theory. Money is but a tool, a machine devised for a certain definite work; a tool exchanging pro

perty, as a common cart transfers weights. Who ever *preached that a nation* could not have too many carts *or too many ploughs? that it was always good to procure carts without end? Did it require the voice of a* grand deductive science to make men perceive the nature and necessary limitation of tools? There may be, nay are, multitudes of people who are not aware that money is nothing but a tool—to make known this fact is all that is really needed to kill the Mercantile Theory. A little intelligent observation is perfectly sufficient without calling in science.

The Malthusian theory again is often appealed to as a splendid product of deductive science; but what is the essence of this theory but the well-known fact that human beings, like all other animals, have a power of multiplying faster than their food, and that if they do so multiply very unpleasant consequences must arise? Again we encounter here only a simple act of intelligent perception. Malthus has only insisted on and illustrated this fact, mainly against a very current theory that God does not send children without providing for them. The fine words about arithmetical and geometrical ratios are merely idle writing. So also is it with one of the most all-prevailing rules of Political Economy—the law of supply and demand. As a practical fact, it has been known to all mankind ever since there has been trade. It is no novelty to men and nations who have never heard that there is such a thing as Political Economy, that if more goods are made than are wanted, they will be sold at a lower price, or not sold at all; and that on the other hand, if bread is scarce from a bad harvest or in a besieged town, it will become exces-

sively dear. Equally familiar is the truth to untutored minds that if a man wishes to have a thing he must pay *for the making of it. There is little else in the economical discussions of supply and demand but expansions and applications of these very obvious and instinctively* observed facts. To call them scientific principles is nothing but inflated language.

In all these instances the true nature of Political Economy stands out clear. It is the application of common sense to familiar processes. It explains their nature and manner of working. It analyses and thinks out practices which are universal, except when thwarted by artificial theory. The information which it acquires by observation and analysis, it puts together in a systematic form. Its teaching is contained in a body of methodical knowledge, which presents to the inquirer the chief facts and the real essence of these natural processes; he is made to understand them, each singly for itself, and all of them together as a connected whole. The production and distribution of wealth are operations of the widest range, and are made up of many and often complicated parts, but they are capable of being grouped and viewed as a united whole. But there is no strict science in all this, no deduction, step by step, from a few first principles, nor any construction of economical laws by induction. I can find no true economical law in Political Economy, unless such truths as that a man must labour if he means to keep himself alive, or that he must prepare beforehand seed and tools if he desires to obtain a supply of corn, are to be invested with the dignified title of scientific laws. What are called economic laws by most writers are mere

tendencies. *They profess no absolute and uniform* character. Men are constantly found acting against what they know to be their interest. They incessantly refuse to adopt new appliances which they are well aware will diminish their labour in the production of wealth. The less economic laws are quoted as the dicta of authorities that know and have decided, and the more men are invited to apply their own common sense to the understanding and the practice of the courses of action to be pursued or avoided, the more effectually will Political Economy perform its all-important service for the benefit of mankind.

The truths proclaimed by Political Economy are ultimately truisms—processes which have always been known to all the world; and when Political Economy has explained them, the hearer is rightly apt to exclaim, that everyone knew that before. It is an excellent test of real economical teaching that it should land the pupil in the perception that it is made up of familiar truisms. A right understanding of them is worth all that scientific treatises have ever constructed.

This description of Political Economy is virtually the same as that given by Mr M'Culloch. "The object of political economists is to point out the means by which the industry of men may be rendered most productive of all those necessary comforts and enjoyments which constitute wealth, to ascertain the circumstances most favourable for its accumulation, the proportions in which it is divided among the different classes of the community, and the mode in which it may be most advantageously consumed." Upon this Mr Wordsworth Donisthorpe asks—"Is this description a fair one? If

so, Political Economy is, after all, not a science but an art. It is defined by its end, and consists not of laws but of rules. It falls into one category together with navigation, ethics, legislation, engineering, etc., as opposed to astronomy, morality, jurisprudence, mechanics, etc., which, unconcerned with practice, merely investigate the uniform relations between phenomena." Yet after so admirable an explanation of the nature of Political Economy Mr Donisthorpe still believes it to be a science which he denominates Plutology.

But splendid generalisations are claimed as the gift which Adam Smith bestowed on Political Economy. This brings us to inductive science and its methods. It commences with analysis, it examines a certain number of instances or cases, it discovers properties or characteristics existing in them, and infers the existence of these properties in all substances of the same kind. Then it abstracts these properties and sums them up in a generalisation which is termed a law. The truths so generalised are real discoveries of scientific processes. But which is the truth which Political Economy has announced by means of abstraction and generalisation? Assuredly not that all men will always do so and so—for they do not. Unquestionably Political Economy employs analysis. It sees what is contained in particular actions, but if these actions were habitually performed before the analysis, and for the very reasons indicated by the analysis, what discovery has been made? No generalisation has been constructed. The reasons for the conduct pursued are simply enumerated, one by one. The great service which the analysis renders is to draw more marked

attention to the reason which common sense discerns for doing a thing in a particular way. The resolution to persist in it is strengthened, the insidious attacks of a new and false principle are repelled with more conscious determination and ease.

But in truth it is needless to say more. The authority who advanced the claim with so much emphasis that Political Economy is a science, enriched with splendid generalisations by Adam Smith, himself refutes it. Mr Lowe sums up his review of Adam Smith and of his economical writings with the declaration, that "he has enabled us to condense the whole of wealth and poverty into something like four words." He apprehends that "the result of his investigations amounts to this, that the causes of wealth are two, work and thrift; and the causes of poverty are two, idleness and waste; and that these will be found, the longer you reason out from those simple propositions, all that is necessary to be known, and perhaps all that can be known with regard to the production and accumulation of wealth." Here is an end of science for Political Economy. All that Political Economy knows and ever will know is a truth which must have dawned on the minds of Adam and Eve soon after they left Paradise, which the human race has brought down with them through the ages, and which the French people have practised for centuries, and practise now with unexampled vigour and clear-sighted consistency, without having probably read a single line of Political Economy.

Political Economy, then, is not a science in the strict sense of the term. The question now recurs upon us, What is Political Economy? and the difficulty of giving

a precise answer to it remains as great as ever. All are agreed that it is concerned with wealth. Mr Mill's declaration "that the popular idea of wealth—that every one knows what is meant by being rich—is a sufficient explanation of wealth," is worthless for a basis of a science, but may be accepted for the general purposes which discussions in Political Economy are intended to subserve. The acquiescence in such a vague description of wealth is fatal to Adam Smith's phrase—an inquiry into the nature of wealth. No book on Political Economy devotes many pages to such an inquiry. The remainder of his expression, an inquiry into the causes of wealth, is too limited. Archbishop Whately was as dissatisfied as so many others with the title given to Political Economy, and proposed to call it Catallactics, or the science of exchange. But the word exchange means exchange of wealth, and thus the vague and unsatisfactory term wealth is not got rid of. Moreover there are many legitimate discussions in Political Economy which cannot without violence be brought under exchange. On the whole, therefore, we must be content with the usual phrase, the production and distribution of wealth, though it may be permitted to suggest that the full title should be an "Inquiry into some general processes in the production and distribution of wealth."

This is not scientific, but neither is Political Economy. The preceding remarks warn us not to wander away from common life in pursuit of the chimæra of a scientific structure. This hopeless ambition has led to the great public misfortune of the decay of authority into which Political Economy has fallen. The existence of

the discredit is universally admitted. We now know the cause and may avoid it. The remedy is at hand and easily available. The general truths of Political Economy are not disowned by civilised nations, but they are not reached through the writings and on the authority of political economists. Their words are not quoted as decisive, as those of a great physician or lawyer, or of a chemist or astronomer, but Adam Smith set thoughts and investigations in motion which are indestructible. But their influence is less than what it might have been. Error and selfishness and folly are still able to thwart them to a most mortifying extent. Great countries are not ashamed to be protectionists: nevertheless, free trade is master of the mind of England, the greatest commercial country in the world, and that avowedly on the authority of Adam Smith. There is not a free trader in England who does not acknowledge Adam Smith to be his leader. Let economical writers retrace their steps back beyond the point where Ricardo diverged into a wrong path. Let them return to the method of "The Wealth of Nations." It may be safely predicted that they will be surprised at the power which they will then acquire over the whole community, and they will gain this inestimable result: They will set Political Economy free to perform its great function, to fight the battle which belongs to it against theory, the theory of the practical man, the interested manufacturer, the narrow-minded politician, the countless enemies of common sense in all matters which relate to wealth and trade.

It remains only to add a caution respecting the range of Political Economy and the authority to which its

counsels are entitled. It gives instruction on wealth; but wealth is not the highest object, much less the one supreme end of human life. Wealth is only an instrument; its value consists in what it effects for its possessor. It provides him with satisfactions and enjoyments; the nature and quality of those enjoyments are the criterion of its worth. A far nobler and keener gratification may be had from the reading of a book, which a little wealth could have procured, than from a multitude of mere luxuries. There are better things than to be rich: there are others, by the side of which riches ought to count as nothing. Men have sacrificed their wealth and their lives rather than perform a false, dishonouring, or irreligious action, and their memory has been hallowed with enduring respect. Hence that knowledge respecting wealth which Political Economy proclaims can claim that rank only which belongs to one single department of human life. Political Economy must be regarded as making, so to speak, a report on the appropriate methods for obtaining a single limited object. It gives that report to the mind of a being who receives similar reports from other portions of his nature. It is for him, for the whole man, to judge how far he will put in practice the advice given. By the laws of his mental and moral constitution, he is not only urged but bound to erect a tribunal within himself which shall judge of the relative rights to command attached to different ends. Political Economy may be able to show that a society constructed on Communistic principles will be poorer than one founded on unrestricted individual liberty; the Communist is authorised to reply that this is a question which falls under the jurisdiction

of Political Philosophy, and that the best social condition is higher and more imperative than the best economical. Nor will anything be gained by enlarging the boundary of Political Economy, as so many writers attempt to do, and absorbing into it Political Philosophy. Political Economy, by its very nature, is not up to such a task; its range would be unmanageable, and there would always remain the fatal certainty that other objects of human life would carry greater weight and higher authority than the acquisition of wealth. The ultimate result would be that Political Economy would not receive the consideration which is its due.

So much in the way of introductory observations; let us now pass on to the teaching of Political Economy.

It speaks of Wealth. With Mr Mill, we may hold the popular idea of the nature of wealth to be sufficient for the objects of Political Economy. It is as determinate, as Mr Mill remarks, as practical purposes require. But one caution must be laid great stress on. It is inevitable that some nice questions should arise as to the limits up to which this conception of wealth may be pushed, the more especially as it is absolutely necessary to examine doctrines which scientific refiners have laid down as to what is, and what is not wealth. Let us clearly remember that whether these questions can be answered only imperfectly or not at all, it matters not; no injury will be done to the character or ability of Political Economy. If practical purposes are satisfied, all the rest is of little consequence.

Mr Mill thinks otherwise. He accepts the popular idea, but he soon starts off in keen pursuit of science.

He lays down the principle, on which he is followed by Professor Fawcett, that things for which nothing can be obtained in exchange, however useful or necessary they may be, are not wealth in the sense used in Political Economy. What warrant of fact or reasoning can be alleged for fastening on Political Economy so marvellous and so arbitrary an assertion? Useful things not wealth! what is wealth but a collection of useful things? What better description can be given of it? Yet these useful things, however much they may minister to existence, to comfort, to enjoyment, if it is found out that no one is desirous of giving something in exchange for them, are instantly dismissed out of the category of wealth. They must be placed, I presume, in a new class, specially constructed for them. They are only useful and delightful things: every one has enough of them without buying them of others; they are not wealth. But the moment they are deficient and something is offered to procure them, as by the touch of a conjuror they are converted into wealth. A great African chief, whose tribe are his slaves, and who lives in complete isolation from the rest of mankind, has no wealth, upon this definition: he has no Political Economy. His slaves get their necessaries, like his horses; he has magnificent possessions, luxuries of every kind, but no wealth. There is not a single market in his dominions. Climate—sun, air, and water—are not wealth; no one buys them. A country is none the richer for a good climate, though that climate may work wonders for it in producing saleable wealth. The bright rays of the sun raise splendid wines in France, magnificent crops of cotton in India and America—but these

wealth-making rays cannot be sold, for they can be had for nothing; they are not wealth. All other matters except climate being the same, Siberia is as rich by nature as India. The tide which carries up the barges on the Thames without cost, which saves the vast expense of railways and horses, which has created London and its gigantic riches, is not wealth at all: there is no market for its waters, they have no market price. Water, which it has cost so much to spread over your land, is precious wealth, so abundant is the crop it raises: that same water, if it would but come down as rain, instantly loses its character of wealth. One has but to ask the wine growers of the Rhine or of France, or the cultivators of rice in India, and they will tell him whether a warm sun or abundant water is or is not riches for a country. Common sense has no doubt in the matter. Political Economists prefer adding a subtle distinction; but thereby they turn away the world for whose benefit alone they exist.

But there is a side of this definition of the Economists which works out something far more mischievous yet than absurdity. When it is affirmed that what will command wealth, for which wealth will be given, is itself wealth, the foundation is laid for most grievous harm in particular departments of Political Economy. This fallacy, next to another to be mentioned later, is the most mischievous one to be found in Mr Mill's Economical writings. He speaks of "an important distinction in the meaning of the word wealth, as applied to the possessions of an individual or to those of a nation or of mankind. In the wealth of mankind nothing is included which does not answer some purpose of utility

or pleasure. To an individual anything is wealth which, though useless in itself, enables him to claim from others a portion of the stock of things useful or pleasant." On this doctrine, to have a right to a thing and to have it in actual possession is the same thing. Thus a mortgage, though only a piece of parchment, is pronounced to be wealth to its owner, to the supposed extent of a thousand pounds. It is wealth and not wealth at the same moment; for the nation, that is, in itself, it is a parchment only; for its owner it is wealth amounting to a thousand pounds. To grant a mortgage is to give a thousand sovereigns to your borrower, and also to retain as much wealth for yourself. Hence it irresistibly follows that to lend is to double wealth: once in the actual gold lent, and then secondly in the mortgage. It can be counted twice over. In taking stock of the fortunes of the borrower and lender, it figures once, as so many sovereigns or what has been bought with them; in the lender's case, the mortgage is reckoned as a thousand pounds. Under the passion for refining, Mr Mill was misled by the fact that a man may derive from a mortgage the same income as a landowner derives from his land: he remained blind to the difference that in addition to the income the landowner had in hand the property which gave the income, whilst the mortgagee has the income indeed, but only a piece of parchment besides. But in laying down definitions and first principles, such oversight may have calamitous results; they propagate errors wherever the principles are applied.

From this unhappy source, that a claim to wealth is itself wealth, Political Economy has been flooded with

confusion and error. The palpable absurdity of the assertion is no match, strange to say, against the fascination which it exercises on many minds. In currency and banking it produces the greatest disorder. Bank notes, cheques, bills, and similar documents are pieces of paper with writing on them. These writings record debts due, and debts are claims to wealth, and by the magical action of the principle that a claim to wealth is itself wealth, these pieces of paper are converted into real, literal wealth. Why does not every man in every nation take to borrowing of his neighbour upon acknowledgments in writing? The wealth of mankind would be instantly doubled. This doctrine, so indigestible to common sense, is even proclaimed as the unravelling of a mighty secret, as the brilliant illuminator of the benighted region of currency. Mr Macleod has generalised Mr Mill's formula,—not wealth for the nation, but wealth for an individual—into an ultimate principle which explains all paper currency and all banking. "Incorporeal property is wealth!" The man who has taken in that truth knows what bank notes and deposits recorded in banking ledgers are; they are wealth. Mr Macleod borrows the phrase "incorporeal property" from legal writers, and he justifies its use by appeal to the authority of great jurists of the past and the present. The expression is awkward and artificial, but it is not nonsense. It means property without the *corpus* or substance; it expresses a right to a thing without the actual possession of the *corpus* or thing itself. Such a right clearly is a property, a valuable possession, capable of being recognised in a Court of Law, and saleable for money. There is no difficulty in

selling a reversion to an estate, or a chattel of which the possession can be obtained only at a deferred date. Such sales occur every day. A twelve months' bill is a piece of incorporeal property, a right to obtain coin, which cannot be got into the owner's hands before the lapse of a year. The words written on the bill are good at law, and will at the proper time, if necessary, be enforced by decree of Court. Such written words are very saleable, because complete reliance is placed on their fulfilment at the specified time. The bill is a title-deed, as is a bank note or a cheque; it is incorporeal property in the sense of the lawyers. But here the lawyers stop; Mr Mill and Mr Macleod go forward. That incorporeal property they call wealth; this the lawyers do not say. The two Economists invent the principle that a claim to wealth is wealth; and the bill fulfils the condition. The piece of paper has a claim for £1000 written upon it; it is actually a thousand pounds. Equally are they bound to preach that spoken words are wealth also, for words can give a claim to a thousand pounds, equally good at law as a written deed. These words, on the principle claimed, must be wealth, must be a thousand pounds. "Beware," remarks Mr Donisthorpe, "of confounding these rights and wealth. A promissory note is merely a promise to pay, and the paper on which such promise is recorded is no more entitled to be called wealth than the sound of an honest man's voice making the same promise. . . . So disappear from the scene, it is hoped, for ever, Mr Macleod's second and third species of wealth."

The plain minds of ordinary men are naturally slow to take in the truth of such a wonderful conclusion; so

a resource of great power is brought up to complete the conversion. A metaphor is fetched up from common life. Incorporeal property is wealth, for it represents wealth. Under the cover of this figure of speech the underlying absurdity is concealed. Does not a tradesman in taking account of stock, set down his shop debts as well as his goods, as representing so much money? If the debts are good, are they not the same as money? So in bankruptcy assets are constantly described as representing so much cash. The incorporeal property theorists quote these facts triumphantly, and waive all further discussion. Every science must have terms of its own, and "represent" is the scientific economical term. What more is needed to prove the doctrine? The puzzled hearer may be inclined to think that he is mystified with a second phrase wonderfully like the dictum that "incorporeal property is wealth." A representative is the thing represented; a counter or ticket which stands for a sovereign is the sovereign itself. The member who represents a county is the county itself. Can we feel surprised that writings on Political Economy are increasing in discredit, that they wield diminished authority over that practical world for whose good alone Political Economy exists?

There is another widely-spread fallacy which has come forth from the same nest. Credit is wealth exclaims a multitude of speakers and writers. Nothing can be more untrue. Wealth is a substance. Even skill, which is justly regarded as wealth, is conceived as embodied in a substance, as a part of a working machine, the man that labours. But credit is not a substance at all. It is an abstract term, denoting a

mode of acting. It is a particular way of acquiring property, nothing more. No one has ever called buying or lending wealth; they are simply different ways of procuring the things termed wealth. Credit is a species of which buying is the genus. Buying is the complete, credit the incomplete transaction. Buying effects the exchange wholly, by giving money for goods. Credit leaves one half undone, takes away the property and gives the equivalent for it, the payment, at a later time. This mode of buying is said to be performed on credit, because it is founded on trust or belief.

But though credit is not wealth, as an abstraction cannot be a substance, the method of purchasing designated by credit is highly instrumental in the production of wealth. Banking is a mode of employing the process of credit, and few inventions, if indeed any, do so much for the increase of wealth as banking. But banking no one calls wealth, though everyone knows that it is a great creator of riches. It places a large part of the capital of the nation in the hands of those who can work it with the greatest efficiency. The result is a mighty augmentation of the wealth made. Banking is a mode of doing business, and no one astonishes his neighbours by calling banking actual wealth. But in respect of credit, the phrase 'credit is wealth' finds favour with many writers precisely on account of the scientific, or rather, the vague sound of the expression. They forget to how many ears it has the sound of jargon, and how sadly it repels men from Political Economy as dealing in language unintelligible to the every-day world.

An interesting question has been raised in respect of

the range of the word wealth, on which it is desirable to make a few remarks. *Is a skilled labourer a part of the nation's wealth? Mr Mill is unwilling to permit the people of a country to be accounted a portion of its wealth. They are that for the sake of which its wealth exists. But he allows skill to be wealth. "It has as much right to the title when attached to a man* as when attached to a coalpit or a factory." The distinction is fanciful. The skill of the workman helps to make wealth, but so also do his sinews, as the sinews and the man, in this relation, are not distinguishable. A trained horse ranks as wealth, but so also does the young vigorous horse before he is put into training. If skill is acknowledged to be wealth, it cannot be separated from the workman in whom it is embodied, for skill is only knowledge how to use his hands.

But we must go further still. I hold, against Mr Mill's limitation, that the qualities of a people, their moral, intellectual, and physical natures, are parts of their wealth. What men are is a force of enormous power in determining the amount of the wealth they create. The emancipated negroes of Jamaica and of the United States would not labour for more than mere necessaries. They do not care to be wealthy and are not. The Chinese are a great wealth-producing people as a consequence of their character. Their neighbours and kinsmen, the Tatars, are not. The difference lies in the moral temper of every people. Europe lately exhibited a splendid example of the power of character in the creating of wealth. France astonished the world by a recovery from a devastating war, and a crushing penalty of 220 millions of pounds sterling at its close.

Her revival astonished and alarmed her conquerors. And to what was this splendid restoration due? To the temper and character of the French peasant, to his *inveterate love of thrift, to his resolute determination to meet losses by curtailed expenditure and by saving. Is not such a quality of soul as truly an economical force, as real a wealth-making machine as a factory or a fertile soil?*

But then, it will be said, we must give up all hope of a scientific definition of wealth. We must; and, as shown above, this is no loss to Political Economy. As Mr Mill confesses, the popular notion of wealth suffices.

CHAPTER II.

VALUE.

I PROPOSE, thus early, to speak of Value. It is a word of the widest range; indeed it may be said to pervade the whole of Political Economy. It is met with everywhere, in the production and distribution of wealth, in wages and profits, in every form of exchange. Its power is felt all through the economical life of mankind. It is a matter of supreme importance to obtain a right understanding of its meaning.

All systematic writers on Political Economy have recognised the great significance of this word, and all, it may be said, have occupied themselves in answering the question, What is value? There is one word, says Professor Perry, that marks and circumscribes the field of Political Economy, that word is value. In proportion as an economist is able and eminent does he make vigorous efforts to discover a true and satisfactory answer, but the question has all along been found to be most formidable." "The question is fundamental," remarks Mr Mill. "Almost every speculation respecting the economical interests of a society thus constituted (that is, constituted on the necessity of exchanging products obtained by the labour of another) implies some theory of value. The smallest error on that subject infects

with corresponding error all our other conclusions, and anything vague or misty in our conception of it creates confusion and uncertainty in everything else. Happily there is nothing in the laws of value which remains for the present or any future writer to clear up."

But how does Mr Thornton open an article entitled, "Cairnes on Value," in the October, 1876, number of the *Contemporary Review*:—

"Most members of the Political Economy Club must be familiar with an anecdote of Sydney Smith, who not many months after joining the club announced his intention to retire, and on being asked the reason, replied that his chief motive for joining had been to discover what value is, but that all he had discovered was that the rest of the club knew as little about the matter as he did. That his sarcasm, however severe, was probably not unmerited, may be inferred from the haze with which the object of Sydney Smith's curiosity is still surrounded, and from the, at best, but very partial success of the recent attempt made by so powerful a thinker as my lamented friend, the late Professor Cairnes, to pierce the cloudy envelope."

Fortunate would it have been for Political Economy if Mr Mill's happy and confident belief that the meaning of the word value had been discovered once and for ever had been warranted by fact, that the sense of a first-rate expression had been ascertained with the precision of a geometrical truth. But alas the history of economical writing, since the days when Mr Mill had this delightful sensation, records only a series of never-ending struggles to catch the ever fugitive meaning of this most baffling of words, till at last Professor Jevons,

one of the latest wanderers in this trackless region, is forced to exclaim that "he will discontinue the use of the word altogether." Mary may feel disposed to think that Political Economy has come to a pretty pass when Professor Perry flings away the word wealth, and Professor Jevons the word value, both unquestionably able and eminent economists, as hopeless. What is the vaunted science to speak about?

It is now desirable to review the principal explanations which have been given of the word value.

Of Adam Smith it may be affirmed that he has not said, in precise terms, what value is. A dictum which he uttered about it has obtained world-wide celebrity. Every writer feels the duty of drawing the student's attention to it. There is, he affirms, a value in use and a value in exchange. But this formula does not explain what value is. It is often assumed that he declares that there are two kinds of value radically differing in nature, but this interpretation is not necessary to give sense to the expression, and, I am persuaded, misdescribes his meaning. It is troublesome enough to have one word to expound, but to search for two different meanings for the same word would be indeed a hopeless task. What Adam Smith did really affirm is that value is attached to two different objects—to things which are used only, and secondly to things which are exchanged. There are valuable things which are saleable, and there are other valuable things which are not. That is the distinction drawn, and it is perfectly sound. Value is one, but the things it is applied to are two. The dictum may supply us, we hope, with a hint which will give us

help to discover this oft-attempted, but as yet unreached North Pole.

Bastiat assures us that exchange gives existence to value. He thus charges Adam Smith with error, for he plainly speaks of a value which exists but which is not connected with exchange. This value Bastiat annihilates. No acuter mind ever applied itself to Political Economy than Bastiat's, but here he ignored the fact that the every-day language of mankind calls many things valuable for which not a single farthing could be had in exchange. Nothing can be more certain than that a definition of value, which either practically stigmatises as senseless the use in ordinary life of so thoroughly natural an expression as valuable attached to an object for which there is no sale, or invents a new sense for it to be specially appropriated to Political Economy, in direct contradiction to popular feeling, amounts to a total failure in solving the problem of its meaning. An economical idea of value which leaves out an ever-recurring sense of the word in common life is little short of an absurdity.

Mr Macculloch lays down, "By value I shall signify exchangeable worth, value in exchange." This definition first explains a word by itself, for value and worth are the same thought under different words; and secondly, by confining himself to value in exchange, he neither explains what value is—this value in exchange—and like Bastiat he gives up Adam Smith's and the common world's value in use as having no place in Political Economy. But Mr Macculloch advances yet further. He declares that spontaneous productions have no value, except for the labour of appropriation. This

strange assertion well illustrates the style of treatment which even distinguished writers have not disdained to apply to Political Economy. Did it never occur to him to ask himself whether an autograph of Shakspeare or of Oliver Cromwell found accidentally in a drawer, or a diamond picked up from the ground in Australia, or the skull of an old Briton or of one of Alaric's Huns stumbled upon by chance, or the bone of some rare geological animal discovered in piercing a railway tunnel, had any value or none, even in exchange? We must seek help of some other authority.

Let us appeal to Mr Mill; we shall obtain the definition of whose accuracy he is so confident:—"Value is always value in exchange. Value is a relative term. The value of a thing means the quantity of some other thing, or of things in general, which it exchanges for." This definition has one signal merit: it is perfectly clear, with the exception of that unlucky addition of "things in general." Mr Mill intended, no doubt, to signify by these words the universal purchasing power of money, which can buy anything on sale; but they yield no increase of meaning to the expression value. A valuable thing cannot be exchanged for things in general, but for one or more selected out of them. However, we are now plainly told what value means. The question, What is the value of a ton of pig-iron? has for answer, say, four sovereigns. Four sovereigns and the value of a ton of iron are therefore identical expressions, and *vice versa* a quarter of a ton of pig-iron and the value of one sovereign are equally identical terms. It must be admitted that there is support, in popular language, for this definition. It is used every day in

ordinary life. The value of that watch is fifty pounds—is a perfectly natural expression, and it must not be discarded in an explanation of value. We must accept it in the sense of market-value, the quantity of money for which a thing can be exchanged—that is, price.

But here Professor Jevons, in his "Theory of Exchange," makes the objection: "If there is any fact certain about value, it is that it means not an object at all, but a quality, attribute, or rather a circumstance of an object." Is this objection well founded? If it is, then Mr Mill has confounded the measure of an article's value with the value itself. "Price measures value," says Professor Jevons, "the measure of a thing is not the thing itself." Now it must be granted, I conceive, that the objection of Professor Jevons is true in spirit, but not in the precise words in which it is stated. Value is something more and other than the thing which an article can command in exchange; value and market-value are not identical terms, but that something more comprised in the word value is not a property or attribute of the article itself. Professor Jevons in turn has fallen into a confusion; he confounds the property or quality of an object which creates value with value itself. That property is always utility, and by utility must be understood the power of giving to a man any kind whatever of gratification or satisfaction. Both Mr Mill and Professor Jevons ignore a multitude of expressions in common language which go to the very core of value. Such phrases as, I value this old manuscript, or this unique specimen, or, my dead friend's last letter to me, or, my dead child's plaything, give utterance to something radically distinct in kind from either the quantity of money or

other articles which they could fetch on exchange, or from any property or quality residing in them. The case is identical with that of the expression, I love that child. Love is not a quality, an object in the child, but a feeling in me called out by a quality in the child. That quality is not love, but something which excites love. The feeling is in my mind, the quality giving rise to it in the object. So it is with value. The phrases just mentioned place value in the I, in the person feeling value. The iron and the sovereigns are objects, precisely because the sentiment of value falls upon them. Neither of these eminent writers has touched the point, which is the core of the question for Political Economy—the strength of the feeling, I value. That strength of feeling it is which determines the amount of the commodities which will be required for an exchange or sale. Mr Mill's definition simply records the results which the strength of the feeling value has produced, the result embodied in the quantity of the things which passed in the exchange. He finds a price attached to a thing, an amount of money or other commodities which must be given to acquire it; that he calls its value, but he altogether passes over the fact that this price, this market-value, is the consequence of a judgment formed by the sentiment, the feeling, value.

Professor Jevons* does recognise a property or circumstance which he says "means," but he evidently intended to say, "which confers value, market value, on the object;" but he does not reach the mind of the valuer, and so fails to explain value. Had he gone on to connect this property, this utility of the

* "Theory of Political Economy."

object, with its effect on the feelings of him who values, he would have ultimately reached the true meaning of the word value. He discerns the useful quality of the thing valued; but he is conscious that this is not enough to explain the word, or to determine the amount of its price. Accordingly he resents "the inextricable confusion with the notion of utility in the sense of the word value," and ends by giving it up in despair, as a word which he can make nothing of.

But Professor Jevons feels bound to supply a substitute. Exchange cannot be explained without a term which performs some of the services which the expression value rendered. So he adopts in its place ratio of exchange, as a term which is unequivocal; and then adds the explanation:—"When we speak of the ratio of exchange of pig-iron and gold, there can be no possible doubt that we mean merely the quantity of one given for the other." This is precisely Mr Mill's definition of value. What the Professor has done is to expel the word value, to put in its place ratio of exchange, and thus to give ratio the exact meaning with which he was dissatisfied in value. The deficiencies of Mr Mill's explanation apply equally to the expression ratio of exchange, besides its being an expression utterly foreign to the market, the factory, and the retail shop in which Political Economy dwells. The Professor feels these deficiencies, and in his heart longs to come back to value. After a long discussion on the Theory of Exchange, he touchingly exclaims:—"I have pointed out the excessive ambiguity of the word value, and the apparent impossibility of using it safely. When used to express the mere fact of certain articles ex-

changing in a particular ratio, I have proposed to substitute the unequivocal expression ratio of exchange. But I am inclined to believe that a ratio is not the meaning which most persons attach to the word value. There is a certain sense of esteem, of desirableness, which we may have with regard to a thing apart from any distinct consciousness of the ratio in which it would exchange for other things." It is to be regretted that he did not follow out the clue contained in this thought; he would then have found his way out of the labyrinth.

Professor Jevons calls the expression, ratio of exchange, unequivocal. As applied to value, nothing can be less so. Ratio simply means proportion. Ratio is a mathematical expression, and nothing else. Twice, three-quarters, of the size, or number, and so on. But before a ratio can be stated, the things compared must be brought to a common denominator. Gold and pig-iron are not halves or quarters of each other in exchange.

By value Mr Mill and Professor Jevons mean price. Mr Mill feels the danger of losing his word value by its being merged into price and tries hard to save it. "The early Political Economists," he tells us, "treated price and value as synonymous, but this was a wasteful expenditure of two good scientific words on a single idea." So he comes to the rescue with a subtle distinction. "By the price of a thing he will understand its value in money; by the value or exchange value of a thing, the command which it gives over purchaseable commodities in general,"—but this is manifestly a distinction without a difference, a pure tautology. This very command is the one thing which money possesses. Money commands all "purchaseable commodities."

Professor Cairnes walks in the same path as Professor Jevons. He defines value as proportion or ratio in exchange of commodities. By this definition he must mean one of two things. Either value is the quantity of other things which an article can command—that is price—or a mathematical relation. It is unnecessary after what precedes to say more about either of them.

Professor Perry of Williams College, Massachusetts,* an economist of great ability, defines value as the relation of mutual purchase established between two services by their exchange. This is ratio of exchange, but then he has his common denominator. All articles are reduced to services. "The value of a thing," he adds, "is its purchasing power expressed in any other purchasing power whatever." This is a repetition of almost the very words of Mr Mill. Value, for the possessor, is the quantity of other services or things which a service or thing can command, which can be got by means of it.

Mr Shadwell,† a writer of much learning and ability, defines value to be, "the esteem in which commodities are held, as measured by the quantity of labour which will be given in exchange for them." The word esteem gave promise of a new and, as I hold, right conception of value; indeed, the words, "the esteem in which commodities are held," are the true explanation of value. But, like Professor Jevons, Mr Shadwell does not seem to have followed out the thought contained in esteem. Immediately after the definition, he thus proceeds: "To explain why a given commodity has a given value is to answer the question, Why does its

* "Elements of Political Economy."

† "A System of Political Economy," by John Lancelot Shadwell.

possession enable its owner to command the labour *of others so many days? or which is the same thing, Why is it necessary for the labourer to spend so many days in order to procure the commodity in question? Thus value and wages are the same phenomenon seen from two different points of view, and the answer which naturally suggests itself to both questions is, Because it has required just so many days' labour to produce the commodity."* It is evident that the idea of esteem has here disappeared. In its place we have "so many days' labour;" or, we may suppose, such an amount of wages. Thus in reality we are brought to Mr Mill's definition, to market value, to command over a given quantity of commodities in exchange. Only for commodities days' labour is substituted, as being the regulator of the quantity of commodities given in exchange for the thing possessing value. Feeling has no place in this definition of value. The command of a day's work is made to be value.

It is unnecessary to say more to show the want of success which has attended the many attempts to answer that very natural, but very unmanageable question, What is value? The review of the diverse opinions expressed almost seems to justify the remark of one who himself embarked on this sea of troubles in an unpublished and extremely intelligent essay on value, the late Colonel Macdonald. "It cannot be denied that no science was ever buried under such a mass of unintelligible pages and hidden from the light of common sense by words without knowledge than the science of Political Economy; and yet ignorance and error here must be followed by evils more fatal to the comfort and

happiness of the human family than in any other science whatever." His criticism on the recorded definition of value marches on the same line with that here given, *the line of esteem. Yet he ultimately landed himself in an identification of value with utility, when he stated "value to be that property which creates in man a desire to possess the article containing it."*

Is it presumptuous to believe that this problem is not insoluble—that a satisfactory solution may yet be hoped for? A word so deeply planted in the every day language of men must surely admit of some acceptable explanation; whilst its acknowledged importance warrants every honest effort to reach the end desired. I must venture on such an attempt, and submit it to public consideration and judgment.

Adam Smith's declaration, that there is a value in use and a value in exchange, covers the whole ground. There are things which possess value which are not saleable, for which no one will give anything in exchange; and there are other valuable things which can be exchanged by a sale for money or by barter. Of the first kind are Robinson Crusoe's gun, which, beyond all doubt, he valued greatly, but not for any purpose of exchange. He had no market. The thought of exchanging the gun could not occur to him. Such also is a flower gathered under circumstances of great interest, the toy of a departed child, the extremely valuable horse of a Turcoman, which he is bound never to sell, the aged stump of a decayed oak, and many other similar things. It cannot be denied that the term value is daily applied to them with complete correctness of language. They are valued, often most

highly. No money could procure them since they are never offered for sale. A Turcoman would rather die than commit the sacrilege of selling his horse.

In this class figure the oft-quoted instances of unsaleable water and air. The supposition that a thirsty man sets no value on a glass of water which he took up out of a running stream would be preposterous. It would bring down ridicule on him who maintained it. What matters it that such valuable things cost nothing? Such a thought never presents itself to their valuers. Their want of price only means that no effort or labour is needed for their acquisition; but does it imply that their owners are indifferent to such possessions, because they cannot be sold? that they would experience no sense of loss if deprived of them? that the thirsty man does not appreciate the refreshing draught of the water which has cost nothing? Such things are felt to be valuable, and some meaning of the word value must be found for them. The presumption is irresistible that this value will be the same in kind and essence with the value which belongs to things capable of being exchanged.

Value is pronounced to be a relative expression, and the assertion is true. But what is the relation? between what bodies does it exist? Professor Perry refuses to admit that value exists independently of exchange. "Ten cents. had the power of purchasing my pencil, and my pencil had the power of purchasing ten cents. A similar transaction first introduced the idea (of value) in the West." But this is palpably untrue of the application of the term value to the cases just cited. There is no thought of exchange in them. The relation implied in value when such unexchangeable things are

spoken of is therefore not to a commodity, but to one who values, to a feeling of esteem, to a judgment in the human mind. This reveals the secret of that very common word value. It expresses a feeling, a sense of attachment, of affection for a thing, a caring for it, a desire to possess it, an intention, more or less strong, to retain it in possession.

It cannot be denied that this sense of the word suits perfectly all the cases of value in use. Every such thing is the object of value, because they all have a hold on the feeling of their owners or would-be owners. They are all consequently valuable. They excite value, attachment, esteem in the minds of their owners. The thirsty man values the glass of water, which costs him nothing, and which he could, if spilled, instantly outeəcpla for the brook. He will exclaim how grateful it is to him.

If now we analyse the process of exchanging, we shall find this idea of value wielding a decisive influence on its results. Value, as feeling, governs the process. It determines whether there shall be an exchange, and on what terms. Market-value, the quantity of money or things which an article can command, is a consequence an effect. The estimation in valuing has completed its task, and the quantities of the articles exchanged have been settled. Each of these quantities is a market-value, the product of the decisions made by the feelings of the exchangers, their respective feelings of value.

For instance, a fine sportsman is in want of a good hunter. He is offered such a horse by a dealer at a price of three hundred guineas. The sportsman likes the horse and is eager to purchase him, but he finds the price

uncomfortably high for his means, or in excess of his estimate of the horse's quality. Bargaining takes place, and ultimately the horse changes owners at two hundred and fifty guineas. Professor Perry has admirably pointed out, that in such a transaction, as indeed in every exchange, every sale, two desires and two efforts are at work. To these must be added two satisfactions. The sale is thus the result of six forces three on each side, all of them mental, all occupied in determining the strength of the feeling, I value, in the minds of two persons. The sportsman desires the horse and the dealer money, or which is the reality always underlying money, those commodities or services which the money will be able to purchase for him. Each man has to make an effort; the one to part with his horse, the other with his money. Lastly, on a comparison of these four feelings, working by pairs on each side, the sportsman comes to the conclusion that he has a higher feeling or esteem for the horse than for two hundred and fifty guineas. The dealer arrives at the opposite sentiment, and the exchange is accomplished. The result is the transfer of two properties, and two satisfactions, one in each of the minds of the buyer and of the seller. Here the nature of value is plainly discerned, the esteem, or caring for, felt for two things in the mind of each of two persons. Both value both the things exchanged. Each values more and prefers to have the thing which the other possesses than that which he himself holds. Each calculates, consciously or not, the severity of the effort he must make to obtain the object of his desire at the loss of what he must give away; and when all is

over each experiences a satisfaction on becoming the possessor of the article he values most. The bargaining itself is an antagonism of feelings, the sportsman struggling to buy the horse on such terms as will render the effort, the sacrifice endurable, the dealer striving to obtain money sufficient to reconcile him to the sale of his horse.

The same holds equally good of an exchange of services, or of a service against money. Professor Perry lays peculiar stress on the employment of the expression service in the place of commodities, but the difference is only one of detail. He admits that the man who supplies you with a barrel of apples has given in exchange a service equal to that of a physician who attends upon a fever. Quite true. The tailor who makes a coat for another man, or the manufacturer who wove the cloth does him a service, and it is that service that he is paid for. For all but an insignificant portion of purchases, the cost of articles exchanged is made up of payment for services, whether in the form of wages for labour or for the assistance of capital. All this is true, and it is highly important to study and understand this mechanism of trade. But the truth is equally expressed by speaking of the commodity itself. The coat sums up all the services rendered to produce it, and when all are counted up, their name is legion. From first to last, including the construction of tools and transport by sea and land, the services given to put a coat on a man's back would reckon up in thousands.

This explanation of the word value differs in essence from the sense attached to it in the expression that the value of a ton of iron is four pounds. The word here

denotes the estimate which the valuing process puts upon iron. Four pounds and a ton of pig-iron measure the strength of the feeling of value in the minds of the buyer and of the seller; and for the purposes of common life it is easier to speak of four pounds as the value of the iron than to use language which refers to the valuing process. Value thus becomes in appearance a property of the article itself; but that is the very reason why it is found so unmanageable and so unsatisfactory for Political Economy. Mr Mill's definition, and others, like ratio of exchange, only tell what the purchase has resulted in for both commodities, the iron and the money; but they say absolutely nothing about the causes which determined the quantities of iron and money to be exchanged.

Further, they oppose strong obstacles in the way of penetrating to the meaning of the word value as employed not only in the cases of value in use, when no sale for money is dreamt of, but also in the universal use of the verb, I value. The idea of valuing is missing in them. Not that the employment of the noun-substantive value, as denoting price, can ever be avoided. Every attempt to do away with it must end in failure; it is too deeply rooted in popular language. What we have to do is to keep clearly before our minds that value in this common sense means market value, or price; and that it is the effect and consequence of the valuing process, which has for its force in determining this market-value or price that feeling in the mind, that esteem or caring for a thing, which is true value, and is ever present in every form of the verb, I value.

Thus there need be no ambiguity of thought or writ-

ing; and we get by the interpretation here given the immense advantage of understanding the process of exchange and the determination of price. Each of the two parties to an exchange makes his own decision in valuing for himself. He determines the strength of his own feeling, his own valuing first of all of the article he desires to obtain, and then secondly of the other article which he is parting with. He determines for himself whether the gratification of the acquisition will equal the pain or effort for what he is sacrificing.

Of this regulating power of the sentiment, value, in determining price or market value, the method of sale by auction furnishes an excellent illustration. An attractive house, a rare picture, or a fascinating piece of porcelain is put up to auction. The desire to acquire it springs up with great force in many minds. Eager purchasers throng the auction-room; most of them, except dealers who buy to sell again, have not absolutely decided on the figure beyond which they will not advance. They have not settled with themselves how strong is their feeling, I value, or what sacrifice they will be prepared to encounter in order to gratify their desire for possession. The auctioneer's figure is rising, in harmony with the strength of value in some bidder. He dilates with persuasive rhetoric on the charming qualities of the object. Anxiety begins to burn in many a heart. Price is fast approaching the limit of some bidder, yet he cannot give up all hope of winning the coveted prize. The feeling, value, is too strong for its antagonist, prudence; and ultimately he wins by a sacrifice greater than he intended at the outset. Thus market value price in the current sense of trade, is estab-

lished; but it has been determined by the feeling, value, the affection felt for the object. The ratio of exchange, the quantity of money, or money's worth, has been defined by the action of mind, of will, under the impulse of the feeling, value.

The force which is so visible at an auction pervades all exchanges. The sentiment that a commodity or service is desirable, compared with the counter feeling of the sacrifice to be endured for its acquisition, governs the very large class of transfers of property effected by bargaining. It rules at fairs, in the purchases of shorthorns and southdowns, in the speculative dealings of merchants and traders, in all the bazaars of the East. It matters not whether the motive at work be the desire of profit or that of acquiring an esteemed object; the governor of the exchange is the feeling called value. It is master of the situation, according as the internal, the mental circumstances of the case may be. It rules and decides amidst the distresses of scarcity, or the agonising surrender of some beloved object to necessity, or the needs of the hour, or the chances of a future market. If purchase is accomplished, the feeling is established that the object obtained, however trifling under other circumstances, is at the time a more desirable possession than the thing sacrificed with so much pain. A horse excited a stronger sense of value in Richard on the day of battle than his kingdom.

On the same principle, the fees of the great barrister or the eminent surgeon are regulated by the conflicting ideas of themselves and of their clients. The claim seems excessive; it is shrunk from as overwhelming; but on no other terms can the great speech or the skilful opera-

tion be obtained, and the esteem felt for such service prevails. Still wider yet is the range which the judgment of the mind exercises in selling. Its decrees underlie those prices which are paid so readily and so naturally over all the shops. The signs of the struggle between the two values, the two opinions on the worth of the thing sold, are not plainly visible; and hence it is easy to be misled here as to their existence. Yet if consumers are struck in a particular part of their fortunes, if war or a bad harvest has raised expenditure, some articles formerly bought have had the regard for them smothered by other feelings; they are purchased in diminished quantities, or perhaps not at all. If we look at trade-unions we shall see the same spectacle. What are strikes but outbreaks of feeling, of ideas? The Unionist thinks that he can enforce a higher compensation for the sacrifice of his toil. If he conquers in the strike, he must be satisfied by higher wages; the feeling of value has prevailed, and raised prices proclaim a victory dictated by temper, sentiment, and ideas.

In the domain of labour, the feeling, value, is as paramount as in every other. In purchases which are guided by fancy, such as rare porcelain or jewels, the supremacy of sentiment is acknowledged; but for the vast buying and selling of ordinary commodities, the principle of cost of production is held to govern the market-price, and the thought of sentiment and feeling as ruling price occurs to but few minds. Nevertheless in the regulation of ordinary wages, the feeling of the reward which a man will require for placing his labour at the disposal of another plays an extremely important

part. A man will work rather than starve, but there are multitudes who deliberately prefer indifferent wages and a low condition of living to the efforts involved in hard continuous work. We have seen that such a temper is found to prevail in many races. They do not become rich because their regard for wealth, their feeling of value towards it, is inferior to their regard for ease.

The same mood of mind was formerly seen in the idleness of Irish labourers. A higher feeling is now producing greater exertions accompanied by corresponding satisfactions. The energetic Scotchman prefers hard work to lounging about. He values more the fruits of toil than the pleasures of idleness. Populations who found that the reward for toil was unequal to its severity have failed to keep up their numbers. Character, as everyone knows, exercises enormous power on the production of wealth, both in nations and in individuals, and the dominant element of character in this region is the quality, strength, and direction which its feelings of value possess. What is the miser, who slaves all his life through, and has accumulated a colossal fortune, of which he has had no other enjoyment than the gratification imparted by its increasing size, but an exhibition of the strength in a particular direction of the feeling, value?

The relation of value to utility now becomes evident. Many writers have identified the two as being two words for the same thing. To be useful and to be valuable appeared to them to be two equivalent expressions. The preceding definition of value points out the difference. Value resides in the mind, utility is a quality of an object. It is fitted by its nature to render

a service which is needed or grateful. That is the result of its material constitution. The perception of this capacity to render a grateful service excites a regard for that object, an appreciation of what it may do for the observer, it becomes cared for and esteemed, it is valued, and a desire to possess it is kindled, if that be practicable. Utility gives birth first to value and then to desire, and all the three qualities are entirely irrespective, as far as their nature is concerned, of the object being capable of being exchanged or sold.

It is further very important to observe that utility is coextensive with value and desire. Value is the personal feeling of the valuer. When an object is recognised to be capable of furnishing a gratification, and has kindled a desire for its possession, the sentiment of value has been created, and the sole essence of all these feelings is the wish to procure a gratification. Be the useful quality what it may, if it is able to excite the desire to obtain it, though that desire be a whim or a folly of any kind, if it generates a willingness to make a sacrifice in order to obtain possession of the object, or to resist the temptation of parting with it, then that utility has succeeded in giving birth to the feeling of value as truly as the noblest object of admiration and respect could have done. The principle is universal. Every utility recognised by any mind, and calling up a desire for its possession, brings value into existence, whatever may be thought of such a desire in respect of morality or rationality.

The cardinal fact that value is the offspring of utility, and that consequently, as every exchange is the transfer

of two useful things, there are two satisfactions implied in it, shows the absurdity of the widely-spread delusion that one man's gain is another man's loss. Whichever of the two parties to an exchange is considered, his only motive for making the exchange is his belief in gain. The man who sells me a hat does me, in my opinion, a greater service than the sovereign I give him can render. As well might one say that it is a loss to engage a good gardener at liberal wages, as if the flowers and fruits he produces are not, to the rich man's feelings, far more valuable than the money he gives as wages. A seller may make an excellent bargain with a man in imminent danger of starvation, and may reap an excessive profit. Nevertheless life is more valuable to the buyer than his coin, and the food is eagerly preferred to the money which would leave him to perish. Every exchange is manifestly a transaction in which both parties concur in recognising that they realise a gain, whatever be the nature of that gain. Why should either of them buy or sell unless a motive of advantage prompts them? It seems superfluous to dwell on such a truism, yet upon the ignorance of it, that obstinate absurdity, the mercantile theory, is founded. The belief is inveterate that it is good to sell and bad to buy, as if traders and sellers did not come into existence from a desire of buyers to obtain the services of the sellers.

It is obvious that the influences which act on the feeling called value are numberless. They vary with every impulse, every conception, every motive which acts upon human conduct. The man who was wont to live on the daintiest fare would give much money for a rat during the siege of Paris. He preferred the

saving of his life to the money with which he bought it. He valued the rat highly. For the same reason a bad harvest may send up the price of bread threefold. Many is the man who has preferred to sacrifice his all rather than violate a moral principle. He values duty at a higher rate than riches. The martyr sacrifices his life rather than abandon his religion. A nation submits to the suffering of higher taxation for the sake of preserving the national honour. Two feelings, two valuings come into play. The regard for honour is the stronger value. To think one's self rich enough, and to cease accumulating wealth in order to secure leisure and its enjoyments is an every day occurrence. Wealth sinks in the valuer's regard. Fashion changes its mood, and suddenly innumerable articles become almost unsaleable, which a short time previously commanded extravagant prices. The feeling of the mind is altered. Enthusiasm, passion, hope, despair, revolutionise the aspect which the world around wears to human feeling. Its feeling of value estimates every object in a different manner. All the endless circumstances which operate in every market act on value, tell upon the impressions of buyers and sellers as to the worth of commodities at the moment. Great bargains are constantly the result of altered values—not of prices, but of the creators of prices and of market-value—the hopeful or desponding feelings of the dealers. There is not a saleable thing in England which may not be at times the sport of feeling, that feeling which is expressed by the verb, I value.

It remains to notice a question which has given rise to much discussion. Is there a measure of value? and

if so, what is it? The expression measure of value has two very distinct meanings which must not be confounded. Money is called a measure of value, and truly so. As all things are sold for money, their prices may be compared with one another, and measured as against each other. Thus if a ton of iron sells for four pounds and a hat for one, the market-value, or price of the ton of iron is four times greater than that of a hat. But this measurement of comparative values by money, by each value being expressed in money, takes place only after each has been severally determined for itself. The value of the iron is settled for itself, and then compared with the value of the gold of which a sovereign is composed. It is the same with the hat and with all other articles, This measurement of value consists solely in taking one value arbitrarily, that of gold, and translating all other values into it, that is by discovering how much gold each article can command. The process is identical in nature with taking a yard and comparing it with all other lengths. These values, thus compared, are market-values, the quantity of gold or other things which they can command. This process tells us nothing as to how the value of each article, by itself alone, is measured.

The explanation has been largely sought from labour. Labour is an abstraction. In this place we must understand by it the use of man's mental and bodily powers for the making of commodities. It is contended that labour measures value, is its universal measure. Now we must carefully bear in mind that we are here speaking of market-value, of price. Labour is thus asserted to be the measure of price. Adam Smith is claimed as

the authority for this assertion. He has pointed out, it is said, the simple and obvious universal measure of value for us to adopt—the length of time which a man will labour in order to obtain any given commodity. The description of this measure of value Mr Shadwell finds in these words of Adam Smith: "The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." That is to say, interprets Mr Shadwell, that everyone has to acquire commodities by means of labour, and that the greater the labour which a person has to expend on the procuring of an article, the greater must be the value he attaches to it. But Adam Smith here does not say a word about value. He speaks of cost—to the maker. By price he means the effort and sacrifice in toiling which he gave to produce the article. But the question is, What will he sell it for? Mr Shadwell replies: For what it has cost in wages paid for the labour of making it. Hence, he thinks he has obtained a universal measure of value for all ages and countries. A coat sells for £5, a hat for £1. The market value of the coat is five times greater than that of the hat. How were these values determined? By the coat requiring five days, the hat one only to make. Now this statement is open to the objection, that it is labour which is measured, and not value. Value is made to be the effect of labour. Hence it measures labour like the height of the mercury measures the cause which produced it. Mr Shadwell has not found a measure of a force or cause called value, but of a force called labour which generates the value.

However this objection need not be pressed. Let us

grant a constant relation between labour and value, such that to diminish or increase the one is to diminish or increase the other in exactly the same proportions. If such a relation exists and is constant, then it may be said that each measures the other. But does it exist? Is it true, in any sense whatever, that value is exactly proportioned to labour spent in making? We are seeking to discover such a universal measure of value as will explain all prices by the action of a single uniform cause. We are engaged in a hopeless search. One, uniform, sole cause of price is a dream; it has no existence. Look at the agricultural produce of England." Its market-value, its price, is in excess of its cost of production. That price yields a surplus called rent after the wages of the labourers and the profit of the farmer are paid. Rent, in itself alone, is a perfect refutation of the doctrine that market-value, price, is regulated or measured by labour, or length of time of work given. A man possesses a rare article—say, quicksilver. He exacts a selling price far above what it costs him in wages to receive it. Does labour measure the value of quicksilver? A great man milliner of Paris is made arbiter of fashion by great ladies. To be the first to obtain his new dresses vast prices are paid. He builds up a colossal fortune. How large is the part of the wages of the cutters and sewers in this operation? It may be said that the price is due to skilled labour. By no means. The dresses may be, often are, very ugly. It is the sentiment, the feeling of the ladies, which makes the price. There are often a dozen prices for the same article, of equal quality, in the same town. Could any one apply the universal measure, the number of days'

work, and bring out the value in each case, as a carpenter measures length by the application of his foot-rule? What has labour to do with the value of beautiful china or old pictures? Then, again, an important portion of the value of a manufactured commodity is the reward which must be given to the capitalist for his abstinence in accumulating his capital by saving at the expense of enjoyment. This is measured by no labour. The use of capital must be paid for by interest, and must be rewarded in market-value, in price, else production would cease. Labour measures none of these values. They are values with which labour has nothing to do. They strip labour of all title to being the universal measurer.

But even supposing that all these prices are paid for work done, in what precise sense is labour their measure? There is nothing which calls for a more rigid description than a standard of measurement. The measure must be the same for all the things to which it is applied—the pound and the yard are the same for all weights and all lengths. What is this labour which measures all values? "The length of time during which a man works in making commodities;" This definition assumes that the work is always the same, of the same quality. On that supposition only will five times the length of time consumed be a measure of five times the value of the work done. But do prices, in the hard world of fact, in any market, give the faintest hint of a sameness in the quality of the working which produced the goods, so that the amount of their prices was determined by the quantity of work,—so many hours working, so many shillings or pounds. Two barristers

plead in the same court; they possess the same learning and work the same time, one earns a fee of a hundred guineas, the other of ten. Is labour the valuer here? or is it not rather a winning manner with judges and juries—a more persuasive voice? An hour of Jenny Lind's singing was worth more—had a higher value—than many days' labour of a common singer; did labour determine the value? But even when the labour is confessedly the same, its value in wages may be exceedingly different. The Dorsetshire labourer did the same work as his fellow-workmen in a northern county; his wages were less by several shillings a week. An observant eye and a quick intelligence raise every day a common artisan into a foreman, and a young soldier into a corporal; their labour remains the same, but the market value they obtain from it is exceedingly different. Labour is no measure of value. If the time standard is applied, the numbers of the hours given to toil are identical. But the measure breaks down, because the values, which, on measurement, ought to be equally identical, prove to be of very different magnitudes indeed.

The conclusion is clear. In the world of daily life, a universal measure of value does not exist; and that for the very decisive reason that it cannot. The things to be measured, market-values, are not the effects of a uniform cause, and consequently are not and cannot be uniform. Market-value prices are the results of one cause; but that cause is most irregular and most wilful in its action. Feeling determines market value; the feeling expressed in the verb, I value; the feeling of value or esteem. That feeling acts on the two parties to every sale and exchange. The competition of the two

esteems, one on each side, ultimately fixes the market value—the price of the articles sold. The feelings of the makers of commodities must, in the long run, be satisfied, else they will not be made; the feelings of purchasers must equally receive satisfaction, or they will not buy. Feeling rules over all values, but it does not measure them; for what is so variable as feeling? It is subject to endless and ever-varying influences. Necessity, want, imaginative ideas on supply and demand, taste, fashion, love of idleness, energy, indifference, speculative ardour, zeal in working, the sense of duty, social ideas, hope and discouragement, and countless other forces sway feeling to and fro, and regulate its strength and its direction. They determine the character and amount of the esteem felt by feeling for a commodity or a service, according to the pervading mood of the hour. Out of this force springs market-value, price in money; but it is changeable, even for the same thing, under varying circumstances, and therefore cannot measure. The market value itself of money, of gold, varies like all other values, and is itself dependent on feeling. It might well be that the gold miners all over the world struck for and succeeded in acquiring permanently higher wages; the cost of gold would then be directly affected, and a larger quantity of every other commodity would have to be given for the same price of gold. Feeling would have injured money as an accurate measure. There is no other standard for value but feeling, and feeling is by its nature disqualified for being a standard.

But it is necessary here to guard against a false and misleading inference which might easily be drawn from the

preceding explanation of the feeling, value. It might be supposed that it meant to describe that feeling as dwelling in the most variable of climates under constant exposure to the most changeable of winds. This is not true of an enormous amount of human conduct governed by feeling in the exchange of wealth. Feeling is essentially variable in nature: that cannot be denied. But, on the other hand, feeling has to deal with powerful material forces, with outward circumstances constantly of the same general nature, with motives generally steady in character, and other more or less stable influences. Habit is a force of great power over human action. Feeling is pretty nigh absent when a man buys a knife or a cigar, beyond the desire to purchase and possess it; so also of his sugar and his tea, his bread and his ordinary clothing. Wages have been known to remain long at the same level in many countries. Fluctuations of desire, impulses to change or to resist price, to care about shortening the hours of labour, and similar irregular mental movements are less frequent than the moods of mind generated by long habit. Nevertheless, it always remains true that the feeling value is the foundation of all industrial action, but that foundation is liable to oscillatory disturbances, and sometimes even to earthquakes. What a revolution amongst other feelings does the outburst of a passionate eagerness for war imply. In what different positions does it place men in many markets and towards numberless commodities. The feeling "I value" is always, ultimately, the dictator of all economic action; it asserts its mastery, even when the barbarian sells his children to be slaves.

CHAPTER III.

EXCHANGE.

EXCHANGE is the greatest and most universal function of human life. It is a necessity of man's nature. That man was born to live in society was the profound utterance of Aristotle. This great fact he regarded as the dominant principle of human conduct, as the foundation of all political and social relations of men with one another. On it he built up political philosophy. Wild animals can live in flocks and herds; but they do not live in society. With trifling exceptions they do not minister to each other's wants. Man, on the contrary, feels wants and desires which irresistibly compel him to seek the aid of his fellow-men. He cannot live in isolation, nor can he satisfy the conditions of his existence by merely living side by side with others, with no other connection with them. He cannot by his single efforts provide for himself those things which his very being forces him to desire and to seek. If men were left to what each of them singly could procure and make, miserable indeed would be their existence. "They must combine," to use the happy phrase of Mr Danson, "and combination means exchange." "Everybody exchanges," says Professor Perry; "for, 'do something for me and I will do something for you,' is the fundamental law of society."

The same thought was very happily expressed by

Prince Albert in an address to "the Society for Improving the Condition of the Labouring Classes."* "God has created man imperfect, and left him with many wants, as it were, to stimulate each to individual exertion, and to make all feel that it is only by united exertions and combined action that these imperfections can be supplied, and these wants satisfied. This presupposes self-reliance and confidence in each other."

But besides this capacity for, and consequent necessity of, living in society, a second peculiarity of human nature exercises enormous power over exchange. Man is distinguished from animals by the faculty of "progressive desire." Man's desires increase in number and range; those of animals do not. Let climate and food remain unchanged, and the buffalo will go down the ages content. He will ever live the same life; he will wish for nothing more. It is radically different with man. In him the gratification of one desire gives birth to another. He perceives some new thing to enjoy, and straightway the desire is kindled to possess it. He is thus prompted to make the effort to acquire it. Thus bread is followed by the desire to have meat; skins have to give way to wool and silk. This progressive desire is the cause of civilisation. New and better things are discovered and wished for in succession. By this force the condition of human life is raised; and it generates the necessary result of bestowing on exchange a magnitude of which it is impossible to assign the limit.

Under the action of these two forces, the social instinct and ever progressive desire, human life becomes one

* The "Life of the Prince Consort," by Theodore Martin, Vol. II., p. 11.

complicated mass of exchanges. Every one buys, and to buy is to exchange. Every income is, for the most part, applied to procuring things made by others. The wages on which the bulk of mankind live are given in exchange for services, and are in turn spent in obtaining necessaries and conveniences produced by others. A man buys because he can make but very little indeed of what he wants. His brother men are in the same state; so each works for others and others work for him. Thus the various trades and professions spring up into existence. The farmer and the blacksmith, the cotton-spinner and the tailor, the physician and the barrister, the artist and the singer, the merchant and the clergyman, are gradually developed as civilisation progresses; every one exchanging his services for those rendered to him by others. In the earlier stages of society, each man callsin the help of his fellows but for few things; but even at its origin exchange exhibits its most distinguishing peculiarity, that each man receives many services from the combined action of all the workers and exchangers, rendering back generally only one particular service in turn.

As a people advances in culture, this characteristic of exchange is developed to a degree that few think of. There is probably not an inhabitant of England who, however simple may be his fare, his clothing, and his shelter, does not partake of services performed for him by the combined labour of many thousands of persons, so gigantic is the machinery of exchange. There are few English men and women who do not drink tea; before the exchange of English goods for tea is completed, and each has been conveyed by railway and steamboat across the globe to their con-

sumers, the labour of many thousands of different men has contributed to bring his tea to the poorest man. To construct the mere machinery of exchange, to make the railway and the steamship, still more to provide the tools employed in their construction as well as the materials, requires labourers whose numbers are incalculable. The tendency to engage ever-expanding multitudes of combined workers in effecting the simplest exchanges, the commonest buying of daily life, is the most marked and the most wonderful feature of progressive civilisation.

The mighty instrument which exchange employs in accomplishing these marvellous results is the great economical principle of division of employments. This must be distinguished from division of labour. This latter phrase refers to many distinct operations combined to produce a single result, one commodity; division of employments tells on the simultaneous production of all commodities. Next to actual labour there is no process so prolific in producing wealth for mankind as the division of employments. It brings an enormous power to bear on the efficiency of labour, on the quantity and quality of the work done in proportion to the effort, on the amount of the things made. The secret of this power lies in the advantage which separation of employments takes of the endless variety of faculties and qualities with which nature has endowed individual men and animals, as well as different countries and climates. To China and India is allotted the production of tea, to America cotton and corn, to France wine and silks, to England clothing and iron. In the same country the several districts divide

amongst themselves the various manufactures. Manchester undertakes cotton-spinning, Bradford woollen goods, Sheffield cutlery, Birmingham guns and nails. In the same town the distribution gains further expansion. Cotton-spinning is made up of many processes each allotted to a special body of labourers. The village follows the same rule; the blacksmith provides for the local wants for iron, the carpenter for wood.

The advantage derived from each man or group of men taking up particular work is great all round. Skill is developed rapidly in the workmen. Each group of men learns how to do the thing well, far better than if they tried to make for themselves everything they wanted. If the blacksmith tried to make a table, he would have a worse table, and would spend a vast deal more time upon it than the carpenter. The difficulties which arise in each field of labour are more effectually dealt with when the intelligence of men who do nothing else is brought to bear upon them. Ingenious contrivances for saving labour, improving quality, and cheapening products incessantly occur to the concentrated skill of specialised workmen. All these advantages are immensely increased, as society advances, and the circle supplied by each workshop and factory becomes larger. The tendency to assign the production of commodities of a single kind to particular workmen gathers strength; and not only so, but the manufacture of each single article is broken up into parts. Division of labour comes into full play. The high skill of the workmen, the number and power of the inventions of machinery, the amount, delicacy, and excellence of the products, above all their wonderful cheapness, which Birmingham, Manchester

and Bradford now exhibit, would never have been realised if each English county had supplied its wants within its own limits, instead of England undertaking particular manufactures for the whole world. Thus every superiority of mind and body, every advantage of climate, soil, mineral gifts, and local power, which multiplies the wealth gained by labour, improves its quality and cheapens its cost, is turned to account by exchange for raising the condition of man on earth. Exchange is a contrivance, a particular machinery for getting each commodity made by special men. It enables this process to be carried on, and thereby becomes the greatest benefactor of mankind, the true foundation of all civilisation.

Exchange is the action of two parties. Each of them finds an advantage in obtaining from the other a service or a thing for which he gives another in return. Both gain. However great may be the pressure weighing on one, however painful the sacrifice he suffers in parting with an object he is attached to, still, by the very fact that he is willing to give it away, he makes it plain that he regards what he obtains on the exchange as something which he values more. He acts under the conviction that he gains—even if he knows that the other party is taking unfair advantage of his circumstances, and is extorting from him his article against a return which violates justice and conscience.

The process of exchanging raises questions of great importance, some of which involve no small difficulty in determining.

There are two different methods by which exchange is accomplished. In the division of employments, a

maker of a commodity may produce it on an order given to him by the man who is in want of it—as a pair of shoes or a building, or he may manufacture it for sale in the expectation of a purchaser coming forward to buy it when made. It is thus that articles of all kinds are piled up in warehouses, shops, and other markets waiting for the appearance of buyers. The former is the simpler process. The supply is strictly accommodated to the demand; it is free from speculation: it is exempt from the risk of loss from want of buyers. In the earlier stages of society this method of exchange predominates; but as civilisation, with its complications and its range of operations progresses, the second method of making without orders, under the expectation of being able to sell on reasonable terms, to an immense extent takes its place. The tendency of modern commercial usage runs powerfully in this direction. A nation like England, which manufactures for countries without number, cannot exchange on the principle of previous orders given. Within England itself centres for making particular goods increase every day, so great is the advantage gained, and so large the cheapness realised by the skill, machinery, and gain of time in production developed in particular localities for special kinds of manufactures. A Sheffield knife and a Coventry ribbon are bought all over the nation. Hence the conjectural supply of goods, by first making them without a previous order and bringing them to market in the expectation of their finding purchasers, has grown to enormous dimensions; and it generates situations and complications not easy to analyse and reduce to rule.

At the dawn of its civilisation every country made the

discovery that the great function of exchanging required a tool wherewith to perform its work. All exchange is barter, and barter was the obvious and earliest method of settling exchanges. But direct barter would have kept society in an infantine state. It lay under the insuperable difficulty that whilst both the exchangers might desire to part with his article in exchange for another, yet neither of them wanted the precise thing offered to be bartered by the other; the carpenter might be in no want of a sheep, nor the tailor of a pair of shoes. So civilisation burst the bonds of barter and sought help of an invention which is employed in every land. A particular commodity was selected by agreement, for which all others should be first exchanged before they came into the hands of those who needed them for consumption. The selection of this intermediate commodity settled down into the adoption of one or more of the precious metals, in specified quantities, under the form of coin or money. Money was made the tool of exchange. Thus a sale became half an exchange by means of double barter. The seller of a plough who did not want a bullock, bartered it to a farmer for money, and then again in turn bartered this money for iron, wherewith to make fresh ploughs. It is obvious that if all articles have the quantity of money fixed for which they can be bartered, the market value of each is determined, and they can all be measured one against another. They can be compared with one another through their prices, whilst direct barter fails wholly in the measurement of all relative market values.

And now on what principle are prices affixed? Ultimately by feeling—and by feeling alone—by that feeling

which is called value; and which is expressed by the verb, I value. No one disputes this fact of articles which are rare from their own nature, or which chance under the circumstances of the hour, to be scarce; but the principle extends to all prices equally—to the prices of that vast mass of things which are wanted and bought in ordinary life, as much as to the exceptional ones just mentioned. The commodities of common use are furnished by services, by the efforts of those who bring them ready-made to consumers. There is hardly a commodity, however common, which, as before remarked, is not the result of countless services. Take such an ordinary thing as a cotton shirt: the owner of the cotton field, the labourers who grow the cotton, the makers of the tools employed, the furnishers of the materials of which these tools were made, the railway shareholders who transport it to a port of shipment, the miners who dug up the coals for the engine, the constructors of the ship, of its sails and iron, the merchant who buys and sells the cotton, the Manchester men who spun it, the sewers of the shirt—and where shall the list end?—every one of these persons has rendered a service indispensable for the making of the cotton shirt; and every one of these services must be compensated in the price at which the shirt is sold. At what rate must each of these services be compensated? At that rate, and that only, which shall render each of these co-operators in the making of the shirt willing to give the particular effort and sacrifice needed from him, for reaching the common goal—the shirt? The motives and influences, external and internal, which act upon the will of each, are judged by feeling; and according to

his judgment the work will or will not be done. If the unionist feels that idleness with its pains is better than the wages offered, he comes out upon strike; the factory or the mine is closed, and production closes. *Feeling is the ultimate king of all exchanging.* Every man determines for himself on what terms he shall contribute his assistance to creating the desired commodity. If the emancipated slave refuses to work, or the sailor to navigate, the cotton shirt will not be made or worn.

The judgment formed by the feeling of value as the amount of the compensation to be required for effort becomes embodied in the concrete sense of the word, value; its market value or price. The feeling value creates the market value, price. The question instantly arises: What influences feeling in valuing its object for market purposes, that is, for the special object of exchanging? Under what forces does it arrive at the price which it will give or accept?

In the discussion of this question, Mr Mill warns his readers once for all, that he contemplates those prices and values which are determined by competition alone; only so far can they be reduced to any assignable law. Hence, he declares that "His conclusions apply to mercantile values and prices, to prices in the wholesale markets, in which buying as well as selling is a matter of business." If no law can be discovered except for wholesale exchanges, then Political Economy has no analysed knowledge of value, nor indeed of its central subject—Exchange. Mr Mill distinctly admits that in retail prices, there are often two, nay, many different prices in different shops or even in the same shop; but retail prices are everything—the all in all for the consumers of com-

modities, for whose sake alone, all exchanging, all making and producing, all buying and selling, all wholesale dealers and their proceedings, exist. Of what possible importance can it be that wholesale dealers have one price only determined by competition—not that this assumption is true,—if a man encounters in the same street different prices for the same clothes, or meat, or haberdashery in different shops? Nay, if one may believe common report, for different customers or customers entering the shop by different doors. Of what use is Political Economy to a man who tells him about some law of wholesale prices, but leaves him at the mercy of the whims or cunning of the shopkeepers of whom he must buy? He would say, and with justice, that the retail dealers and their ways are real life for him; and that wholesale dealers with their scientific laws, if they have any, are only part of a distant machinery. He would think that the pursuit after science in such regions would be waste of time; and such laws pure imagination.

Many economists have striven to establish competition as the scientific law of exchange; but their efforts as yet have not met with success. Mr Mill's confession, that competition is not the ruler of retail trade, is decisive of the fact that human nature will not and does not take its stand absolutely on competition. Men, in buying and selling, are not uniformly governed by the desire of making as large a gain, or saving as much money as possible, however much this principle is fondly laid down by Economists, as the one foundation of their science. There are indestructible elements in human nature which come into play here.

as disturbing forces. 'Men will not uniformly buy the cheapest, though they generally strive mos vigorously to sell in the dearest market. It is nc ignorance of Political Economy which misleads ther into error; it is their own carelessness, indifference o laziness. Fancy acts on the feelings of buyers or a long habit of dealing at a particular shop—kindly feelings for a tradesman, a strong dislike of the trouble which the pursuit of cheapness imposes. Who has not witnessed the endless cases of wilful determination to persist in buying of some particular dealer, though people know perfectly well that he refuses to come down in his prices when the value of his goods has fallen in the general market. Then on the side of the seller, a feeling of moderation often exercises a powerful sway, or a love of a reputation for fair dealing, or esteem for the good opinion of the neighbourhood, or contentment with reasonable profits. Moral forces have and ought to have power to influence conduct in economical, as well as in every other department of human life.

The grand idea of constructing a science of Political Economy on a law of human nature, that men will steadily pursue what most promotes their interest through the agency of competition, rests on a foundation of sand. It is no answer to reply that Political Economy concerns itself solely with the most efficient methods of accumulating wealth. If such is its vocation, it will never explain the manifold diversities of human conduct with respect to wealth. It has to deal with beings whose moral nature cannot be separated from any portion of their existence. To reap always the largest harvest of gain, by strict adherence to the most money-making

methods, is not practical human life, and never ought to be. But let there be no misunderstanding here. I do not insinuate that the man who is the keenest trader, the shrewdest observer of the state of supply and demand, who wins every practicable, but yet honestly attainable penny, who has the skill to ascertain the *really lowest price, and the will to obtain it, is an offender against morality. What is here intended is that by the side of the motive of self-interest, there are other feelings and forces which do, and ever will, modify* human conduct. Hence arises *the certainty that no* scientific laws as to how men will act in determining prices, in buying and selling, in dealing with demand and supply, are possible. Fixed rules cannot be laid down, which upon deductive principles shall teach buyers and sellers what is the state of supply and demand, and what ultimate prices will be its consequence, and which will make those ultimate prices to prevail. Economic teaching can give tendencies only, but to explain them clearly is itself knowledge of great importance.

On the other hand no one can dispute the strong, often violent tendency to competition which prevails in almost every branch of trade. The larger the scale on which business is carried on, the farther removed producers are from ultimate consumers, the more powerful is this tendency, because personal feeling has a far narrower scope. The competition becomes of the keenest, when the struggle breaks out between nation and nation. What has been recently written on the rivalry between the iron manufacturers of England and America strikingly illustrates its force.

Of the power of feeling to disturb a scientific

determination of prices, the war between capital and labour—for it is nothing less—as waged in England and in so many other countries, furnishes a most vivid illustration. Strikes and lock-outs, closed factories and impoverished workmen, profits arrested and machinery injured by want of use, loss and distress attest the energy with which the reasonable and natural process of exchange, in the very teeth of scientific teaching, is resisted. Science has little to say in foretelling the ultimate issue of a particular strike. How helpless is it to guide an employer whether it will be safe for him to engage in a long contract. With such volcanic forces rumbling under ground, who can estimate what will be the state of supply and demand, what the conditions of exchange, what will be the cost of production, in what direction prices will move? Economists may deplore the obstinacy with which the claim to science is despised, and grand formulated tables for ascertaining coming commercial weather are disregarded, but the feelings of men's souls, the varying importance attached to reward compared with the sacrifice entailed by effort, and the passions of the human heart will break in like tornadoes, and scatter all scientific determination of market-values to the winds.

Let us now return to the question, What determines the rates of exchange? What are the forces which act on feeling to fix its sense of value? On this great subject we may learn much that is highly useful, but the preceding remarks will prepare us for not expecting scientific laws.

We have seen that every exchange is the consequence of two desires and two efforts or sacrifices. The object exchanged for money must possess utility for the

purchaser, however trivial or absurd that utility may be, otherwise he will not buy; there will be no exchange. As Mr Danson remarks, the final decision whether there shall be an exchange rests with the buyer. Secondly, for a purchase effort is required for the acquisition of the useful object. This is called by some writers difficulty of attainment. A man who can procure a thing—such as water or air, under ordinary circumstances—without trouble, will not give money for it. These are the two necessary elements of value in exchange, of market-value or price, utility and difficulty of attainment. But as has already been shown, in the meaning of Adam Smith's formula, value in use and value in exchange, value is not destroyed, because no purchaser can be found. There are valuable things, things valued which are not saleable as well as others that are.

We are thus brought to the conditions and circumstances which act on value in exchange. The articles which are exchanged, which are bought and sold, divide themselves into two classes. The first class comprises things which are unique or rare, which cannot be multiplied at will, which generally are not consumed at once but endure, commonly with increased value. Belonging to this class are special diamonds, old pictures or statues by great artists, beautiful porcelain, fine sites for building and the like. In the first instance their cost of production had to be defrayed, but once produced, they acquire special values with which their original cost has little connection.

The second class is composed of the great bulk of commodities which are required for the support of human life in a civilized country. They are made for

immediate consumption. They constitute almost the whole of trade. They are the products of the enormous manufacturing and agricultural industries of modern times, and are under a constant process of continuous production. For these cost of production is the dominating element for their value in exchange.

Both classes fall under the forces involved in supply and demand. The abundance or scarcity in which they appear at market, compared with the demand which is present to purchase them, exercises great influence in determining their values.

Cost of production implies services rendered and goods manufactured by one class of people, makers, for the benefit of another class, consumers. It is obvious that this cost, however defined, must be compensated to the makers, or else the articles will not be produced. Each of the parties must have his satisfaction; the maker has his reward for having worked for you, you the acquisition of a thing to use and enjoy.

But what is cost of production in its economical sense? Professor Cairnes has proposed to define the phrase as meaning the pains of labour, the efforts and sacrifices which must be given in making commodities for others. The words of the expression, it must be admitted, suit this explanation, but they give an unusual sense to an expression which has already got a well known and satisfactory meaning. Why load Political Economy with another violation of common usage, and add to its discredit for inventing phrases unfamiliar to common life? Mr Mill also gives a peculiar definition to the expression. He regards it from the point of view of the capitalist. He describes

it as all that the capitalist, or employer, has to pay, exclusively of his own profit. But the object of all production is to do a service to a consumer. On him must fall the cost, the remuneration to be given to others. If he orders a thing to be made, he will probably ask, What will it cost? and such a question manifestly means, How much am I to pay for having it made? Why then draw an arbitrary line amidst all these expenses? Why leave out one? Why substitute the manufacturer for the buyer? That expense, the profit, must be paid, like all the others, indeed many profits, for many will be the capitalists engaged before the consumer gets his razor or his hat. Again there are many producers who find the capital, and do the whole work themselves. The price they charge covers both the remuneration for the use of their capital and that for the labour bestowed. Upon Mr Mill's definition it is hard to say what cost of production means for such persons. That definition introduces confusion wantonly. Prices revolving round a cost of production which omitted the profit of the manufacturer would be an expression destitute of definite meaning, for one most essential element in the fluctuation of market-values would be omitted.

This aggregate price, including every charge for construction and transport, is the indispensable condition on which commodities will be permanently produced. It is obtained at once for goods made upon order. For those produced in advance on the expectation of sale, it must be obtained either regularly upon each sale, or when variations of selling value occur, upon an average for a definite period. This price has been

called the natural value or price, by Adam Smith; by Professor Cairnes and others, the normal price. But it would be a mistake to regard this as anything more than a rough and general statement in relation to temporary fluctuations. It indicates merely average or medium price—that price which a farmer exposed to the influence of the seasons must in the long run obtain, if he is not to be ruined by his business. And one further feature of this normal or natural price must be carefully noticed. Along with the storms which trouble the surface of the market price, there may be going on at the same time a steady set of the tide, upwards or downwards, altering its permanent level. Thus, compared with forty years ago, the natural or average price of wheat has steadily sunk, whilst the winds of good and bad harvests were blowing as usual over the land. What the repeal of the Corn Laws, with the vast area of supply which it won, did for wheat, other influences have done for iron, cotton, and many other commodities. Their natural price is changed; as a rule it stands at a lower figure.

It is very important to trace out more closely the main elements of cost of production. Adam Smith resolves this cost into labour alone ultimately. He describes labour as the real price of everything, what everything costs to the man who wants to acquire it. Ricardo follows in the same path; he lays down labour to be the real foundation of value in exchange. Both these statements are incorrect; they fail in completeness of analysis. Even were the assertion accurate, the word labour is not a well-chosen expression. There are many things which enter into cost of produc-

tion which it would be startling to call labour. Labour is a term closely associated with certain classes of society. Workmen of all kinds are called labourers, yet sailors, physicians, barristers, teachers, work very hard, and are never called labourers. The idea, however, contained in the word is accurate; effort is the thing intended to be described by the word labour, but as it is contributed in producing by persons who are not associated by popular language with the class of labourers, a better expression for it may be found as an element of cost of production. That expression is service; it furnishes all the meaning that is desired.

The question has been often asked, Is the skill of the labourer, or rather the expense of his training and education, an item reckoned in exchanging, a part of the cost of production? Mr Danson, following many leading writers, considers "that it has been wisely agreed that we shall refrain from putting any pecuniary valuation upon men. We ignore the money cost of rearing a day labourer to maturity. Yet it is considerable, and consistency seems to require that we should do the same as to the higher but strictly analogous cost of rearing a lawyer or a physician." * It is always with regret that I differ from so distinguished a master of practical Political Economy as Mr Danson; but on this subject I feel unable to go along with this statement. It is perfectly true, as Professor Jevons has remarked, that on the day of exchange, when an article is bought, the purchaser puts no question as to the history of its manufacture. He looks only at it as it stands in the market; he

* "Lectures on the Political Economy of Daily Life," by J. T. Danson Liverpool.

thinks only of its market value on that day. But both the Professor and Mr Danson, by taking their stand on this fact, forget that if the skill and training required for the manufacture of the commodity be not compensated—speaking of its continued production—it will cease to be made. If the cost of the education of the great lawyer and physician is not replaced by their fees, then their learning and their skill will disappear from the world. The highly paid training of the chronometer-maker and the painter must be paid for by the buyers, or farewell to accurate chronometers and exquisite pictures. These are practical and very real facts, and they govern the situation. The objection to putting a pecuniary value on a man is a mere sentiment; it has no foundation in the actual constitution of society.

But is service, in the sense of exertion made for another, the whole of what an article costs to a man who wishes to acquire it, all that he has to pay for? There are other matters undeniably to be paid for, before he can get it made for him. In many countries, a tax will have been levied on the materials of which it is composed. Then there may be a natural monopoly—such as a quicksilver mine, or a distinguished vineyard—which imposes its charge on a consumer. Unquestionably the wages given for labour figure most largely in the cost of most articles produced; but the engineer, manager, clerk, and other officers obtain much larger salaries—not for mere labour, but for skill and intelligence. Still more yet, the reward claimed by the capitalist for the use of the funds which his abstinence has provided, has no connection with labour, and must be given by the buyer under the name of interest. All these things

enter into cost of production, for it includes every sacrifice to be compensated, every satisfaction to be given to makers and to sellers.

Wages and profits manifestly constitute the largest part of the cost of most things made, but it would be a false inference to draw that high wages and high profits generate always a high cost of production. This is a complete mistake. High profits and high wages constantly co-exist with cheap goods. In a colony abounding in fertile land, the rates of both profits and wages stand often on a very high level, yet the corn and cattle produced are sold freely at low prices. A pair of scissors made in an undeveloped country, destitute of machinery, would require an enormous time to make, would be badly made, and would sell at an immense price; and yet probably the wages and profits of the makers would be small. A hundred needles are bought for a shilling in England, a trifle, considering the elaborate character of the little tool; yet probably the manufacturer and his workmen have earned high rates of reward. The labour was very efficient: that is, the work produced very large for the number of workmen and the time bestowed upon the needles. The money realised by the employer and his men was, in the aggregate, small in proportion to the quantity of needles or scissors made; and thus each packet of needles, or of cotton thread, becomes excessively cheap. A very high daily wage, a handsome profit, articles of great finish, and a trifle for price —such are the fruits gathered up from labour rendered efficient by machinery. Small indeed is the cost of production of each needle under such circumstances.

The phrase, efficiency of labour, it must be added,

is equally applicable to work which is very small in quantity, but exceedingly high in quality. Machinery multiplies products, executing them well at the same time; but the skill and the fineness of handling which create a delicate scientific instrument, or a piece of exquisite lace, though it produces but a single thing, yet is most efficient of excellence. Quality is a great product, a rare and difficult achievement.

So much then for the fundamental principle, that if commodities are to be permanently provided for human wants, all the services required for making them, and placing them in the hands of the consumers, that is, their cost of production, must be satisfied. In respect of goods made to order, no more need be said. With regard to the bulk of articles which come under trade, and are made on the expectation of being sold, we will now suppose that they have been brought to market, whatever be the form of that market; they then fail under the principle of supply and demand. They are supplied for sale under the expectation of being demanded by buyers. The relative strength of what may be called these two forces exerts an enormous influence on the prices at which they are sold.

When business, owing to the circumstances of the country, or the nature of the goods, proceeds in an ordinary humdrum way, the quantity of the articles made may closely correspond with the quantity required; and variations of price may be few and insignificant. In such cases, demand easily equals supply, the equation is ordinarily complete.

But such is not the character of modern trade, especially English trade. The economical principle of

division of employments has become international, and has introduced radically different conditions of market. England makes clothing for almost all the world, and receives most of her raw materials, as well as the goods she receives in exchange for what she sells, from foreign countries. Her markets, both for buying and selling, have thereby become subject to all the changes of fortune and circumstance which may befall these foreign lands. A bad harvest of silk in China, or of corn in America, a famine in India, a civil war in the United States arresting the production of cotton, a war between France and Germany, insolvency of foreign loans, commercial depression over the States and Canada, and Germany, and other territories—these, and endless other vicissitudes of commercial position, most powerfully affect the demand and supply of the whole of English trade, and create violent commotions in prices, both for buyers and sellers. It was natural that economists should fasten their attention on these variable winds of the commercial weather, and be eager to discover the existence of laws in supply and demand to guide and protect traders in every market. Much ability and acuteness have been devoted to this study. Whether an economical Newton has ever sprung up and proclaimed a law of supply and demand which may rival in authority that of gravity is a matter which must now be considered.

The interest here, be it observed, is a purely practical one. Is Political Economy able only to record certain facts without giving any rules for determining what these facts shall be? or can it furnish laws, which, if followed, will lead to certain and necessary results?

To learn whether demand and supply contain a

scientific law, we must first know what they are. Adam Smith defines demand as a desire to buy on the part of those who are able to pay the price required; and supply as the quantity of goods brought to market. To this definition Mr Mill makes the objection, that there can be no proportion between two things not of the same denomination, such as a desire and a quantity of goods; they cannot be compared together as to their action on price. Accordingly he gets over the difficulty by defining demand as the quantity of goods demanded, and supply as the quantity of goods offered for sale; and when the goods are bought and paid for, he pronounces that the result is an equation between supply and demand. Professor Perry substantially takes the same view. He calls the money ready to be offered in buying demand, and the quantity of goods present to be sold supply. The sale marks that an equation has been established between the two. But these definitions only state two facts; they are merely statistics, they tell us nothing about their action on prices, and the forces which make that price what it is.

Further, Mr Thornton attacks this doctrine of equation, and denies that the market price of a commodity is always such that the demand and supply become equal. He most unanswerably urges that demand often would buy more if the price would remain stationary at a fixed point beyond which it refuses to advance. When an article is absolutely indispensable, such as food to ward off starvation, then a defective supply will be all bought. In the siege of Paris, men preferred to give their all for food rather than die; but if the article be a luxury, the desire to buy and the means of paying may

remain unexhausted, yet the price is unable to rise. There are many who would consent to buy oysters at four shillings a dozen, who would refuse to give six; they prefer some other luxury to oysters at such a price. The price in that case will not rise beyond four shillings, yet there are many who would give that sum but cannot get the oysters. At four shillings the demand is stationary, yet the supply is insufficient. To say that at that price, demand equals supply because the surplus demand has been extinguished, would not be accurate, for at that market value there are buyers who go empty away; and if it were accurate, it only expresses that all the oysters were bought.

Adam Smith's definition, slightly modified, will give us the true relation of supply to demand, and put us in presence of the real forces which act on value in a given state of supply and demand in a given market. Let the first part of his definition stand. He describes demand correctly as a desire to acquire with ability to pay. On a level with this, let supply be described as a desire to sell with the means of at once furnishing the goods. The parallel will then be complete; and we shall have two opposite desires, standing, each of them, on a physical fact, the goods actually in existence, and the money wherewith to buy them. Under ordinary circumstances, supply will adapt itself to demand, and natural prices will prevail. The usual compensation for services rendered in production will be given by purchasers in the shape of profits, wages, and other payments; when, on the contrary, in a given market, the relation between supply and demand is disturbed, then the feelings of the demanders and their suppliers will come into play. If the article be rare or

unique, the antagonism of contending feelings will be purely personal. The market value will be the result of a struggle to discover the strength of the desire to retain possession and of the temptation offered for acquisition. If there be a deficiency in the supply of an indispensable article which must be purchased, the whole supply will be disposed of necessarily. Many will be compelled to reduce their other consumption to escape too severe a sacrifice, and the sellers will be able to establish through the competition of purchasers a raised market value. If, on the contrary, supply is excessive, sellers will be forced to tempt buyers to increased consumption by diminished price. Goods which have ceased to be fashionable will be sold off at very low terms; and fish, at last, may have to be given away.

Then again, the price offered by demand may be unsatisfactory to sellers, and they refuse to sell; thus, beasts are often withheld at a market and driven back home. They never really become supply; by an act of will they are removed from the class of supply. Still more is this the case with wheat, of which a sample only is brought to market; it remains at home; the sample was a mere experiment whether it should pass into supply. There is no intention of taking a lower price than one determined upon beforehand. But these are conditions which are all discovered by actual experiment; they cannot be grouped under any law, for there is no uniform price to govern the feelings of demanders and suppliers and so determine a scientific market value. The ultimate price can be discovered by trial only: in no other way can the strength of the contending feelings be ascertained.

Professor Cairnes could cite other elaborate efforts only as approximative to the law of market price, and he acknowledged that his statement would be utterly unsatisfactory to some economists, whose views in connection with their science were more ambitious than his own. We must come to the same conclusion with Mr Shadwell. We must acknowledge our inability to devise a theory which will satisfactorily account for the phenomena of market value, and must leave them unexplained. We must hold that the fluctuations of the value of commodities cannot be predicted. At the same time I am unable to share Mr Shadwell's confidence that these phenomena conform to law, though we cannot say what it is. The nature of the regulating force, human feeling, in such matters necessarily, as it seems to me, excludes the dominion of law.

It remains to notice some important points connected with supply and demand.

It results from the nature of all trades that all goods on sale are goods offered in exchange for other goods. Every article in every shop or market asks to be exchanged for some other article in some other market. This cardinal fact is disguised by the use of money in exchanging. Money betrayed even so acute a thinker as Mr Mill into the great error of supposing that goods are a demand for money. If that is so, then this demand is little gratified in modern trade. The Clearing House of London alone exchanges goods for goods by the help of pen and paper and figures to an extent enormously greater than all the coin and bank notes in the kingdom. Goods in shops are a demand for other goods. The seller with the money he takes buys other

goods, else his money is useless to him. He would starve on a heap of gold. Thus the important truth comes out that the same goods are at once supply and demand. For the buyer they are the supply of what he wanted; for the seller, they are the means of his demanding at some other shop those articles that he needs. Through the intermediate agency of money supply becomes demand.

This analysis leads us up to a truth of the first order that purchasing power resides in the supply of goods. Nominally sales are made for money. Demand is commonly understood to be an offer of money. But, even supposing money to be present, which in England it very seldom is except for small retail purchases, that money had to be itself bought with goods; so that in very truth all income, all fortune, all power to acquire things necessary, or beautiful, or enjoyable, consists of goods or commodities offered in exchange. The landowner's rent is his share of the corn and hay produced on his farms. The wages of the labourers reckoned in shillings are the articles which they buy for their maintenance. The profit of the employer in like manner is the portion of the goods made which accrues to him. Throughout all trade goods are the realities which buy, reckoning themselves up in money, but in actual fact making use but of little of it.

It follows from these truths that the aggregate demand of any country is the quantity of goods which it has to offer in exchange for others. The power of purchasing extends to the whole amount of commodities seeking to be exchanged, but it cannot exceed that quantity. There may be speculative buyers, who act

on market price as demanders, but who on the day of settlement are unable to pay. It is clear that such persons never possessed purchasing power. From this nature of purchasing power an important consequence follows. Whatever quantity of goods is taken away from buying a particular kind of commodity is so much added to the quantity seeking to buy in some other market and *vice versâ*. Whatever amount of goods is added to purchasing and exchanging in one market is so much taken away from another market. There is only one exception to this rule, but it is very important. When an increase of wealth happens in a country that produces more than it consumes, then by such saving it acquires an addition of buying power. It obtains a demand which is not a diminution of some other demand. But the general truth remains unaltered, an increase of demand for particular commodities involves, except in the case of goods saved, a diminution of demand for others.

This truth, though often forgotten by economical authorities, contains the secret of most commercial depressions. Not to discern its bearing is to neglect to give to trade warnings of the highest moment. If wealth, as loans, for instance—which, as a rule, are always taken out in goods—had not been sent away to every part of the world, if commodities had not been used up without any other commodities made to replace them, if new railways which could not repay their cost for many years, whatever may have been their dividends, had not been constructed not out of savings but out of capital, demand would not have diminished so fearfully as it has done for some years past. Trade would not

have been stagnant, mills would not have worked at half time, railway traffics and dividends would not have dwindled down, and commercial bills been hard to find in the money market. So simple a truth as this that the trade of a nation is the exchange of all its goods, and depends for magnitude on the quantity of those goods, is the natural and real, but much unthought of explainer of all these collapses.

Allusion has been made above to the difference of the effects produced on the price of luxuries and of necessaries by a deficiency of supply. Dearer luxuries are given up by many, and thus the rise of value encounters great and increasing resistance. But bread must be bought, whatever its price. Buyers on a bad supply become eager; sellers hold back. The result is a rise of price greatly out of proportion with the amount of the deficiency. A very interesting table has been drawn up by Dr Davenant, and cited by Professor Jevons, founded on conclusions drawn by George King in 1696, in which an estimate is given of the effect on price of different amounts of defect in the supply of corn.

We take it, he remarks, that a defect in the harvest may raise the price of corn in the following proportions:—

Defects.		Above the common Rate.
1 tenth	raises the price	·3 tenths.
2 "	"	·8 "
3 "	"	1·6 "
4 "	"	2·8 "
5 "	"	4·5 "

so that when corn rises to treble the common rate, it

may be presumed that we want above one-third of the common produce. If we should want five-tenths or half the common produce, the price would rise to near five times the common rate.

Whether this estimate is accurate has been a matter of dispute, but the important fact is not doubted that price ascends far faster than supply falls short.

The sufferings caused by such violent rises of price were fearfully aggravated by the folly of human legislation. The obvious resource against the uncertainties of the seasons was plainly to extend, as widely as possible, the area from which supplies might be regularly drawn. The broader the fields, and the more diverse the climates, from which a people derives its means of existence, incomparably the greater will be their security against starvation, as also against the social and political disorders to which famine so easily leads. But legislators ruled it otherwise.

Artificial contraction of the supply of food would have been bad enough for a people, who in ordinary seasons could protect themselves from want, but applied to a country which at all times could not raise sufficient food for its inhabitants, was the very climax of perverseness. Duties were imposed on corn, not for the sake of obtaining revenue, but avowedly with the object of impeding importation. Nor was this all. The method adopted reached the acme of absurdity. A prohibitory duty was laid on corn, but as the consciousness could not be escaped, that a season might come when starvation would be at hand, it was enacted that if the price reached a certain figure, the ports should be opened and all duty removed. Thus

the growth of supplies abroad for England was converted into gambling, as were also the operations of merchants. There were traders whose custom it was when harvest time approached, to send inspectors round the country with small square hollow frames within which they enclosed from many fields ears of wheat. The ears were gathered, the grains in each counted, and an estimate made of the probable yield per acre. If the prospect looked gloomy straightway large orders for the purchase of corn were sent abroad. The merchant took the chance of a great gain or a great loss. Could an actual desire to keep a people short of bread, and to prevent corn from being grown abroad for its support, have devised a more effectual plan for accomplishing its object? How could foreign farmers sow their fields with wheat for England under such a system?

One point more remains. In civilised countries purchasing in retail shops at the prices asked is substituted for bargaining as in the East, and for the higgling of the market as for cattle at fairs. The principle relied upon for protecting society from lying at the mercy of the shopkeepers is competition, but, as Mr Mill saw, it is a far weaker force in retail than in wholesale business. As we have already seen, there are many prices for the same goods in the same town, often in the same shop through different doors. Either from habit, or fashion, or dislike of trouble, customers persevere in purchasing where they well know the price to be excessive. A still greater defect seems inseparable from retail business. When cost of production rises, shopkeepers are swift to raise prices, and reasonably so, but when

the opposite fact occurs, and they buy their goods on cheaper terms from the wholesale houses, their power in resisting a reduction of their prices to what fair dealing demands is wonderful. The lowering process is slow indeed. No shopkeeper likes to be the first to adapt his rates to altered cost of production, and buyers are weak in applying compulsion. The dealers are a combined body, purchasers a mass of single individuals, mostly too busy to carry on a battle for small purchases. Thus the state of supply and demand is set at defiance. It was mainly the strength and success of this one-sided management of the market, this quickness to rise and this slowness to fall, which called co-operative stores into existence, and they may have a greatness in the future which retail dealers would be wise to think upon in time.

These observations bring us again to the perpetual moral that exchanges and their conditions cannot be reduced to scientific rule. The personal element with all its fitful variations of fairness, intelligence, habit, greed, good nature, dislike of trouble, is ever mighty over prices. Supply and demand is checked by many other forces, though in the main it is the strongest force of all.

CHAPTER IV.

CAPITAL.

WE have seen that cost of production is composed of all the compensations given for services rendered to consumers, that is for providing materials and with them making the commodities which they require and purchase. Amongst these elements of cost, wages and profits occupy prominent places. We are thus brought to inquiring into the nature of production and the instruments by which it is accomplished.

Producing or making is achieved by the use of man's faculties, bodily and mental; that is by labour. To make or, more broadly, to perform a service, is to labour; and this is an act of exertion of human powers. In every case there must be an effort of body. The thought of the captain who directs the movements of the man at the wheel cannot be communicated without moving his lips or his hands. The inventor who multiplies wealth by his genius must speak or write. But mind is seldom if, indeed, it is ever absent, even in the performance of mechanical motions; and it plays an enormous part in the productiveness of the labourer. Man both possesses in himself, and is surrounded by a physical world full of endless capabilities of yielding useful results, that is, results which gratify desire. The intelligence which guides labour, from the knowledge

how to make and handle a spade to science over all its vast range, is the mighty power bestowed on man for the creation of the innumerable products which are summed up in the word civilisation. Thought is the commanding force in transforming the physical elements of the world into things fitted to satisfy human desire. One conclusion follows from this truth. As thought takes a share in all labour, to think in producing is to labour. Even when no movement of the body is employed, the thought of the engineer, the chemist, the designer of forms, the inventor of machines, even before word is spoken or written, is labour. Common use has appropriated the term labourers to those who are known as workmen, and this usage must be respected by a Political Economy whose sphere is the every-day life of men. But it is essential to recognise that those who contribute thought to labour are as real labourers as those who contribute bodily strength and action. The thought which produced the steam engine, the compass, and the electric telegraph is amongst the greatest of forces that ever laboured to create wealth and satisfactions for mankind.

Labour, it is obvious, varies prodigiously in severity and productiveness. The hodman who climbs ladders with bricks upon his head performs very hard work, yet the transfer of bricks from the ground to the scaffolding is, though indispensable, in itself a very small service. The great chemist who carries on experiments in his laboratory may not be heavily taxed with bodily effort, yet he may make a discovery laden with infinite utility. Economists have pushed the distinctions between labourers still further; they have raised

the direct production of those things called wealth into a standard, and have divided labourers into productive and unproductive, according as they belong to this standard or not. Mr Fawcett, following Mr Mill, writes: "It will be found, as observed by Mr Mill, that labour creates utilities fixed and embodied in material objects." In Mr Mill's own words: "Labour is creative of utilities as productive labour is labour productive of wealth." Now wealth is nothing else but an instrument, a tool to effect something, a mere machine. Bread is wealth, but it is only an instrument for producing an effect on the body, for sustaining life. So a beautiful garden, a splendid building, or a fine hunter; they are machines or contrivances for creating effects on the eye or the feelings. They are instruments, not the final results aimed at; they are, in the strictest sense, utilities. On the other hand, pleasures, gratifications which only exist whilst being enjoyed, and services which give satisfaction only whilst being performed, are not wealth; they are the ends, the objects, which the wealth was procured to obtain. Mr Mill, therefore, limits the expression productive to a labourer who makes an instrument, a machine which can impart a pleasure or satisfy a desire. It must be material and susceptible of accumulation. The labour which uses the instrument, and accomplishes the end designed,—the pleasure or the satisfaction of a want—is for him unproductive.

But he is willing to regard labourers who impart qualities to human beings which render them capable of performing services to others or to themselves as productive. The schoolmaster, the physician, the

teachers of bodily exercises, the trainers who develope skill in others, he is willing to regard as productive. The persons whom they instruct are considered to be wealth; they are tools or instruments possessing utility by virtue of the qualities developed and embodied in them by the teachers. The teachers create tools, those tools being men: the skilled men are reckoned as wealth. But those who render directly the service for which the wealth was made, Mr Mill classes as unproductive. The judge, the policeman, the army and navy, the civil and governmental service, except so far as they improve the national mind, and so create an improved instrument for producing wealth, are consequently unproductive.

This classification, it must be said, is arbitrary, artificial, and useless. Why the maker of a flute should be called a productive labourer, but the man who plays upon it unproductive, is inconceivable upon any sound principle. They both equally work for the same common purpose—to give a pleasure to the ears. They may both labour equally hard, the result is common to both; and why the use of the lips and fingers in playing may not be regarded as instrumental as the making of the flute it is quite impossible to imagine. But why should an instrument, a substance of material wealth, be taken into account at all? Why is not the beautiful singer as truly a productive labourer as the flute-maker? What has the use or non-use of a piece of wealth called an instrument to do with the matter? The effect of the sound on the ear is the one and the same end aimed at by both processes. To this Mr Mill replies, that the distinction is important only as classification; and that it is desirable to distinguish as a sepa-

rate group those who make material and accumulated wealth, in the common sense of the word, and those who reach the object aimed at directly, but make nothing.

He supports this assertion by appealing to the popular understanding that producers are makers of wealth. But such a reason furnishes no solid motive for attaching any value to such a classification of labourers and non-labourers. The common world has no need of Political Economists to point out that some people manufacture wealth and others do not; that a footman in a great house is something very different from a carpenter or a blacksmith. On the other hand such a classification strongly contradicts public feeling in describing a judge who maintains order, an army which enables workmen to labour in peace, a Cabinet Minister who directs the national policy of his country, as unproductive labourers. Mr Mill may protest, but the world will impute a stigma to such an epithet, and it is in the highest degree important to teach mankind the great truth that the hard-working judge, the often-sleepless Minister, the enlisted but idle, and always most efficient when idle, soldier and sailor, are toiling and labouring in conferring inestimable benefits on society. The true view is that of Mr M'Culloch, M. Say, and others:—whoever works in conferring a service on others is a productive labourer. He reaches the end of all wealth and all action directly—the imparting of a satisfaction or an enjoyment. Whether he does this with or without an instrument called wealth is utterly immaterial. He produces the very object intended: he is a producer and is a productive labourer.

Mr Mill himself is obliged to admit that "the unpro-

ductive may be as useful as the productive labourer;" but he falls back on the argument of consumption. The pleasure of the beautiful song leaves no trace; it makes society the poorer by the expense of the singer's maintenance. Society grows no richer by his service; his singing is all that is obtained from his toil as a compensation for what he consumes. The tailor, on the contrary, may consume as much as the singer, but in the end there is a coat which did not exist before he began to work. But a great fallacy lies in this argument. There are assuredly two kinds of consumption, and the distinction between them is vast and most important; but the two labours described by Mr Mill are one and the same in nature. The cost of the singer's maintenance introduces no practical distinction. The difference between the coat and the song lies solely in duration. If a guinea is given to hear a song and three for a coat, the song is far dearer, because it is so short-lived; but relative dearness does not make labour productive or unproductive. A bottle of Tokay may cost a guinea, and perish as rapidly as the song; but Mr Mill does not refuse to call the maker of the Tokay productive. All wealth is intended to be used, that is to be destroyed. It may be desirable that the destruction should be slow—that a singer should sing many songs: but slowness and swiftness of consumption touch cheapness or dearness only of the thing enjoyed; they say nothing about the productiveness or unproductiveness of the labourer. In a word, every successive application of labour to the attainment of the one desired end is productive, and a classification which does not recognise this truth but stops arbitrarily at the point where the making of the final

instrument, of the tool which achieves the intended object, is completed, is arbitrary and unreal.

But in truth, unproductive labour is a scarcely conceivable thing. Every man who either himself works or any other man who works on his behalf, to satisfy any desire whatever, is a productive labourer. He toils to get something, and he gets it: and that is to be productive. But to make an effort without an object is almost unintelligible. It is true that many objects of desire are most frivolous; but that they are desired and laboured for is the only point in this discussion. Political Economy possesses no tribunal to judge of ends: it has no authority to prescribe to men what they shall desire. One man has as good a right, so far as Political Economy is concerned, to amuse himself with procuring men to throw stones at a stick, as another has to hunt boars, or to keep a host of idle servants for the purposes of ostentation. If one pursuit is thought to be more unworthy than the other, the issue must be carried to Moral Philosophy, and not to Political Economy. Political Economy teaches two things: how wealth, that is the means for gratifying desires, is acquired—and secondly, how an increase of wealth is to be effected. But when the wealth is obtained, Political Economy leaves it to its owner to dispose of it at his pleasure. It only says to all, whether they be noble or ignoble consumers, that if they destroy without replacing, they will inevitably become poorer.

The subject of consumption is one of the highest interest in Political Economy; its discussion will come better after capital has been explained.

CAPITAL.

We have now reached capital—a subject which lies at the foundation of Political Economy. It may be said with truth that it has been treated with great ability and success. Nevertheless it is a subject which, in spite of its real clearness, is singularly liable to mischievous confusion, not only in the outside world, but also amongst economical writers. Money is the disturber here, it fastens upon capital as a question specially belonging to itself. Thus the conception of the real nature of capital becomes clouded, and much harm results to the right understanding of very serious events in the industrial and commercial life of a nation.

1. Definition. What is capital? Wealth used for the purpose of producing fresh wealth, and for that purpose only. To produce wealth requires makers and things wherewith to make it. The makers must be fed, clothed, lodged, and be supplied with necessaries at least. Then they must be provided with materials on which to work, and they must have a supply of tools to carry on the work. All these things must be provided, some beforehand, the others whilst the work continues. Land, factories, engines, railways, cart horses, corn, cattle, hay, groceries, knives, saws—every conceivable machine, and tool-shops, offices, the grandest and the humblest contrivance for producing work, one and all are capital, and without them, employed as capital, their respective products will not be forthcoming.

2. The test of a thing being capital. It is to be remarked of all this capital, these materials, implements, and necessaries for the labourers, that they are consumed and destroyed in the process of creating wealth, some

rapidly, others more slowly. The food and clothing of the workmen are used up and disappear. The raw materials lose their primitive forms. They pass into new combinations and shapes. The seeds planted in the ground perish as seeds. The tools wear out by use. Buildings and ships must be restored by repairs or by new ones. Thus the very purpose of capital is to be consumed and destroyed; it is procured for that very end. The longer it will last and go on with its work, the better for the maker and for those for whom he makes; but to lie by in store is not the vocation of capital. No one procures it with that object; it is sought in order to be used, that is to be consumed.

But the same is true of all wealth; it is sought and acquired for use—that is for consumption. Yet some wealth is not capital; what is the test of that wealth which is capital, and of that which is not? This, that the wealth consumed in production reappears in another piece of fresh wealth. This is the necessary and universal test of capital. Wealth which is procured solely for final enjoyment is not capital; when it is consumed, it leaves nothing behind. It has fulfilled its purpose, it has afforded the gratification desired, and nothing beyond that was sought. It is quite otherwise with capital. The chemical manure perishes; it is restored in the abundant hay. Labourers earn a good livelihood and enjoy it; but there are the calves and the ricks, the yarns and the nails which replace what they have consumed. The country is none the poorer for their consumption. On the contrary it is the richer, for the articles made were wanted, and are better than the things used up in making them.

It has been largely debated amongst economists whether land and labourers are capital. Mr Donisthorpe* thus states the issue.

"Are land and labourers rightly classed under the head of capital? To this question four answers are logically conceivable and only four. Land, but not labourers; labourers, but not land; neither one nor the other: and lastly, both.

"Is it credible that leading writers can be cited who among them return all four of these answers?

"Such is the deplorable state of anarchy reigning in this department of inquiry that there is no difficulty in doing this. Mr Macdonnell accepts land, but not labourers; Adam Smith labourers, but not land; M'Culloch accepts both; and Mill neither."

As to land, it seems to me impossible not to accept it as capital. It is undeniably pre-existing wealth, necessary as an instrument for production; it thus falls under the definition of capital. It is as much capital as the plough which prepares it for the seed. But, it may be said, it has not been saved from previous wealth which might have been devoted to enjoyment and not to production. But this is not an essential point; the fact that it is an instrument indispensable for producing the food of mankind is sufficient by itself alone. And even if it were true that the absence of an origin from saving forfeited its title to capital, that objection could hold good only of the first few years of the cultivation of a virgin soil to which no manure of any kind was applied. It would then lose its fertility and cease to be cultivated. But the existing cultivated land

* "Principles of Plutology," chap. I.

of the world is not in that state. As fast as any portion of its fertility is exhausted it is restored by manure. Hence land has become an instrument, made and constructed for a productive purpose as truly as a steam engine; it comes incessantly under repairs, and those repairs are additions put into it by saving, and remain embodied in it for productive use. A farm in a high state of cultivation is an eminently elaborated machine, constructed by the application to it of wealth procured by saving.

Whether labourers are capital is a far more difficult question. That skilled labourers are a part of the wealth of a nation, I cannot doubt, any more than that a whole population of trained soldiers is a solid part of its warlike strength. Further, a slave is unmistakably as much capital as a farm horse; he is as truly a tool for production as is the horse. Then again, the skill of the labourer has been obtained by an expenditure of wealth upon him; that cost has been embodied and reappears in the improved worker. Thus the test of an object being capital is fulfilled. Wealth has been consumed in the education of the labourer, and it is restored in a new product; but that product is not one intended for final consumption, for enjoyment. It is a new and improved tool, to be applied as capital effecting production. In all these respects, and they are the essential characteristics of capital, the labourer is capital. But he possesses one element more, which creates embarrassment. He is the owner of his own person; his body, with its faculties, belongs to him; it is subject to his will. He thus acquires a two-fold character. He is property, so far as he is a tool for labour; and he is an

owner of property, so far as the use of that tool is absolutely at his own command.

Then arises the awkwardness, that if he is himself capital, he is also a capitalist; and this explanation of him comes into direct and hopeless contradiction with the language of common life. It must never be forgotten for a moment in political economy, that its sphere, its true and sole valuable sphere, is that of common life; and that sphere forbids the calling or treating a labourer as a capitalist. There is then a logical contradiction involved in regarding a labourer as capital or not capital. If he is capital, he is also a capitalist; if he is not capital, he is denied a title which the very definition of capital confers upon him. Of the two inconsistencies, the worth of political economy to the world demands that the labourer should not be called a capitalist; he is and ever will be regarded in real life as belonging to a class standing over against the capitalist in direct and specific contra-distinction. It is open to an economical thinker to point out that, in the light of definition and logical classification, the labourer must logically be accounted capital; but for all practical purposes he is neither capital nor capitalist.

Not a little discussion has risen amongst economists as to pronouncing whether a given portion of wealth is or is not capital; yet the answer is plain. An article cannot be declared to be capital or not-capital till the purpose it is applied to is determined. Take sacks of flour, they may or may not be capital. Devote them to making bread for the workmen in a mill and they are capital. Transfer them to the great mansion to feed livery servants and they are not capital; no wealth

But a nation may become poorer as well as richer. If it loses merely what it would have consumed in enjoyment, but, if at the same time, its capital, all its machinery, men and things, for producing, are untouched, it has lived harder for the time, but is not really poorer. What is called a commercial depression is something different from this; it is the result of a country having lost a portion of its means of making wealth. This loss has been brought about by a process which is the very opposite of saving; it has consumed more than it has produced, the balance is on the wrong side, it has less capital, and consequently can make less.

This is a matter of such supreme importance to the welfare of mankind, it so deeply concerns the happiness of nations and of individuals at all times, their trade and their prosperity, that it will be profitable to dwell a little longer on the mechanism of production.

Production, we have seen, is effected by the employment of capital, and its essential characteristic is to replace with new wealth what has been destroyed in making. If then, nations are not to grow poorer, they must keep up their ability to produce, they must maintain the amount of their capital, for capital is their working power. A diminished amount of capital if rendered more efficient, as by the substitution of improved machinery, would, of course, be equivalent to the larger stock previously employed. If, at the year's end, an account of stock is taken, supposing the nation not to have gone back, it will be found that every one has been maintained in the mode of life he adopted, and,—which is the essential point—that capital, its materials,

tools, and support for labourers, is fully as capable of making as before. But capital may have done more. It may have sustained every income, and yielded every wage and profit, and in addition have an increased quantity of wealth to exhibit. Besides keeping up the stock of things at the former level, it may have a number of newly drained fields, coal mines just opened, railways constructed and about to set to work, fresh factories built, a larger stock of food for the coming year in addition. All this machinery for becoming richer and better off will have been provided out of the surplus gained during the year by consuming less than was made. There will be the means of maintaining more people, or of procuring more enjoyments for a stationary population.

If the opposite state of wealth arises, whether from the action of the season or of war, or interruption of industry, or excess of railway making, or, which is the great point to notice because it is within man's own control, by indulging in enjoyments beyond income, the nation—to use a common phrase—will have eaten into its capital, impoverishment will have been incurred at the cost of capital. A part of the things destined to keep up the national production will have been destroyed unproductively, and not replaced. There will be fewer things made, because the means for making will have been smaller; the nation will be poorer. If a people were to set to work to eat and consume everything that is in the country, it might enjoy unparalleled abundance for one or two years, and then it would starve.

This analysis furnishes much instruction. It were well if public journals, men of business, the Stock Ex-

change, and even economists, would be at the pains to gather it.

1. We learn, in the first place, what income is. It is most important to understand this clearly. Income is generally supposed to consist of money. It is always expressed in money. Profits, wages, salaries of all kinds are reckoned in money. All purchases are supposed to be made with money. Every one lays down that he has so much money to spend. Thus money hides the real facts which occur. Now income is not money. It is a pure delusion to suppose that income is money. Even where income is received in money, or wages, the true income is what the wages buy in the shops; the real wages, in contradistinction to what economists call nominal wages, that is, money. A labourer gets much or little exactly in proportion to what he can procure with his wages in the shops. In the same way, the great landowner's income is not money, for he may very probably not receive a pound of it in cash, but his share of the cattle, corn, and hay grown on his farms. The tenants sell these things for him, and pay their rents with cheques. He reaches what his income brings him when he completes the exchange by purchasing with these cheques what he desires.

It is the same with profits. A merchant makes a profit of £1000 on a cargo of cotton. He lives upon these pounds. Is not the money specifically his income? No, for very probably he has never touched a shilling from these pounds in money. He received them in cheques or bills, and cheques and bills are not money, but only promises to pay money. These promises, written on paper, perform for him exactly

what coin does for the labourers. They are his nominal profits. His real profits are obtained when he exchanges these promises for the articles which he buys. These articles are his income. Money and paper are mere cartage. The things moved by the cart are what the owner finally receives as income.

2. We learn what savings are, surplus of things made over things consumed. When the owners of this surplus —each man for himself—decides that this surplus shall be applied to increased means of production, it becomes capital.

An interesting question, little thought of, now presents itself, Where are these savings? Lord Overstone estimated the annual savings of England at 150 millions of pounds—an exaggerated sum probably—but undoubtedly they are excessively large. Where are they? in what form do they exist? Not in consols, certainly, or old railway shares, or shares in old companies; nor in fine houses and gardens freshly made—for these last are not capital. Most savers, no doubt, purchase investments—shares in companies and railways, or consols, or other stocks, but this does not tell us where the savings of the nation are. These investments were in existence before the saving was made. They remain unchanged. The man who buys such an investment does not determine where the saving he has made shall be. He transfers his money to a seller, and it is what the seller does with this money which determines not only where the saving shall be, but whether there shall be any saving at all. If he sells his railway shares to the saver, and with the money he receives pays for fox-hounds or race-horses, he destroys the saving

made by the buyer, and the final result is an unaltered state of the public wealth. But if the seller of the investment employs the proceeds as capital, then it is he who decides what and where the saving shall be. He may drain his farm or build a new mill or ship, or take shares in a new railway to be made, or make roads on his estate. By doing any of these things he creates fresh capital in the country. He saves, and gives a definite shape to the saving. The income of the nation is permanently increased by his act.

These operations have been effected by the agency of money, but the money is not the thing saved. There is the same money in the country, whether any saving has been made or not. Nor do the savings exist in banks, for a bank has only its buildings, its ledgers, and its reserve in gold, as wealth, and these are unchanged by the savings of the country. Banks play a large part in deciding where the savings shall be, but the savings are not in them. By advances and discounts they decide in multitudes of cases what form the savings shall take. They may help a ship to be built, or a new railway constructed, or draining carried on, or any great trade operation entered into. The men who receive the advances and do these things, they give form and body to the saving, but the banks are only intermediate agents by means of pieces of paper. If on the contrary the banker makes an advance to a man on mortgage who desires to make large ornamental improvements on his house or park, beyond his means, he helps to destroy capital. When the advance is repaid, the borrower must have sacrificed a portion of his capital.

3. Capital is divided into two classes, founded on a distinction pointed out by Adam Smith. He classed capital into circulating and fixed. Circulating capital is that which is consumed by a single use, and reappears, in full, in the products which it has created. Thus the food of the gardener is restored in the potatoes dug up. The coals burnt in the factory, the iron-ore which has been dissolved, reappear in the pig-iron created. Fixed capital is that which is not entirely consumed by a single use, which is capable of doing its work more than once, and consequently does not require that its produce should, on a single use, restore it in its integrity.

Circulating capital derives its name from its rapid movement. It is applied, then destroyed, and then recovered. A master carpenter sends his man to make repairs in a house. The work takes a day, and wood and nails are used up. When the man leaves at night, the job is paid for. The wood, nails, and the man's wages destroyed the carpenter's capital. He receives it back again in the money received, or rather in the things which that money purchases.

Rapid circulation is of great importance. The thread made by a cotton-spinner is not capital for him, though it is capital to his buyer. If the sale is delayed for any reason, the spinner for the time is out of his capital. His production is so far paralysed. Hence it becomes clear that the slower the circulation, the longer time the products take in being made and sold, the larger is the capital required for the same business, the greater is the cost of production. This fact shows how large is the economical gain from ready-money payments, how

they render the goods cheaper, as in co-operative stores, without any diminution of profit or wages. On the same principle we discover the immense gift which railways bestow on consumers. They largely diminish the stocks lying idle, either on the road or in the retailers' shops. They give speed to circulation, that is they enable less capital to do the same work. The ultimate buyer, the consumer, has to pay for the forced idleness of the capital. He is the richer for the time saved, and all the consumers make up the nation. The capital of the country, without being actually augmented, is practically larger. The idle stocks in warehouses and shops exist no longer. They have been transformed into new working capital. Without any increase of means applied to production, the quantity of wealth created is very considerably increased by the railways.

The second class of capital, the fixed, is not consumed by performing its service once. By far the largest part of the machinery of production consists of capital of this nature. A steam-engine lasts years, so does the factory itself. But a distinction of importance must be drawn here. There is no such thing as fixed capital in an absolute sense. A part of what is called by this name is really circulating capital. The wear and tear of the engine and the building, of the merchant ship and the cart-horse, are pure circulating capital, as truly so as the coals which generate the steam. The circulation is completed by repairs, and repairs are only the capital destroyed in a machine by working reappearing in its renovated state. These repairs are charged upon the goods made in their price; they enter into cost

of production. In the case of a cart-horse and similar instruments, there are no repairs, but the depreciation in its value is met by an annual item added to the cost of production. A farmer who employs twelve horses, each of which is expected to last twelve years, must be repaid the cost of a horse each year as replacement of capital used up.

As to the remaining portion—which is the only fixed capital—it is wealth converted into a lasting instrument of production. It was made to take that form for the sake of the profit resulting from its employment. But the use of it is subject to necessary conditions. That use must, first, pay for repairs; secondly, it must, out of its products, furnish the fitting rate of interest on the capital which it cost to make that machine, be it building, engine, tool, or horse; thirdly, in many cases it will be expected to do more. Its construction has destroyed wealth; in most businesses the careful capitalist will seek to lay by from its profits something in repayment of its original cost. But there are instances of such machines which are treated differently. A railway incurs an immense cost in its construction; but its shareholders are satisfied with leaving their wealth permanently invested in it, providing only for the maintenance of its efficiency, and then dividing all the surplus as dividend. But the railway does more than this duty. It satisfies the shareholders and keeps their property undiminished; but over and above this service it confers an enormous benefit on the nation far exceeding its cost. Its indirect effects, in cheapening transport, placing commodities at the doors of consumers at trifling expense, economising time, opening new markets for

districts more or less isolated, dispensing with large accumulations of stock in shops all over the land, giving access to manures, and in a hundred other ways, are so enormous that, many years ago, the great engineer Robert Stephenson declared that the railways had paid off the National Debt. And so they had; the assertion was perfectly correct. They had established for England, by their existence, a clear additional income, out of the same capital, of some 28 millions a year—and the annual charge of 28 millions is, and alone is, the National Debt.

There remains one most important moral to be drawn from this analysis. If the creation of fixed capital leads to the great enrichment of a country, it not seldom lands it in great impoverishment. There is no cause so common of financial crises and commercial depressions as an excessive construction of fixed capital. Large quantities of wealth are consumed and disappear altogether in the opening of great mines, the formation of railways with their tunnels and embankments, or the creation of great iron works. The food, clothing, and materials have been eaten and drunk up and worn out; they are cleared away, and nothing left except the works which have been made. So far, the consumption is a creator of poverty; for tunnels and shafts by themselves alone do not restore the food and clothing which have perished. The deficiency is not filled up even if these mines and railways go to work, and produce profits, and yield good dividends. The capital, the wealth consumed in their construction, is still unrestored, and is not replaced until out of the profits, and before dividends are distributed, the original cost of making these

works is repaid. The nation is poorer in things to use. The inevitable consequence is that there is less trade, for there is less to buy with, less to exchange, diminished traffics, fewer and reduced profits—precisely because there are fewer things, fewer goods in the country. This excess of creation of fixed capital—of capital, be it remembered, which is destroyed, and is not, for a long time, practically restored by wealth available for use—commonly follows a season of exceptional prosperity. Men are then hopeful, profits are good and abound, extension of business fascinates, trade is active, and demand for goods ever on the rise. At such times, as happened a few years ago, in the iron and coal trades, new works are commenced in profusion. All this while the consumption of the national wealth proceeds rapidly in maintaining many labourers and in the development of luxurious consumption in the fine weather of large profits; and it is followed by the consequences just described. Amongst these offenders none are so mischievous as railways; promoters, desirers of premium, stock-brokers, and many others, eagerly excite one another. The railway works are begun, and often the revulsion overtakes them before they are completed: the nation is stricken with poverty by their construction.

All these events react on the money market. The depositors of banks are unable to meet their calls; many fail, the others press for loans to save them from ruin. Deposits diminish; on many mercantile accounts, or bad bills, the banks incur heavy losses. Suspicion spreads in every quarter, as to what house is sound, on what bank a run may take place. Failures multiply—

often amongst those who were the most favoured chiefs of financing. Then finally comes the crisis, which is in substance the settlement of losses, the discovery who are to be the ultimate losers, whether banks or individuals. When the agony has subsided, a long depression ensues; trade is painfully slack, from the reduced wealth in movement; bills are scarce in the banking world, and 1 per cent. becomes its king. The suffering reaches its height in those very trades which had been stimulated in the day of sunshine to multiply new works for enlarged production. The means of producing are found to be in painful excess above the power of buying, and shut-up mines and closed factories visit wages and profits with annihilation.

Such are the terrible calamities with which the construction of machines which are amongst the most enriching known to man may visit a people when carried to excess. A man with £50,000 a year who does £100,000 worth of draining in one year, must be poor and in difficulty. A single individual may borrow, but a nation which puts itself in that position has no resources beyond itself, and must suffer. Railways and other fixed capital are to a people what draining is to the landlord—most powerful instruments for obtaining wealth; but they cannot be constructed without great destruction of wealth involved in making them. It is long before they come into action to replace what they have consumed; meanwhile food, clothing, iron, coals, are gone. In this vital matter there is only one way to escape injury: not to make fixed capital beyond the amount of savings. Within that limit there is perfect safety, and such an application of surplus wealth

is excellent. Savings may be thrown into the sea, and no poverty will ensue; if converted into instruments for production they become permanent gains.

It may be asked, how is a people to learn the extent to which they may create fixed capital without loss? how are they to discover how much they are saving? No rule can be given; it is a matter of actual trial; it can never be ascertained accurately. But one influence may exercise immense power in guarding against the danger: a thorough understanding of the principle which governs this vital subject by all who take a lead in commencing new enterprises. If every banker, every trader, and every producer grasped firmly the truth that savings must not be exceeded by the nation, and profoundly felt the disasters which the neglect of this truth must entail, a spirit of caution and observation and prudent reflection would be engendered which would control extravagance in the costly investments on fixed capital. It is the temper of the industrial and commercial community that must be looked to for safety.

The depressions here spoken of have often been ascribed to over-production. That this is not unfrequently a cause of much trouble no one can dispute and it is very desirable to have an accurate conception of what is signified by the term. That it is possible to produce too many goods of a particular and definite kind is undeniable. This was an event which not many years ago was often seen in the Australian trade, and was exceedingly harassing to the merchants engaged in it. The several populations of the Australian States were small, and the markets consequently very limited;

there were no telegraphs to announce prices, and consequently mercantile ventures to those countries involved a large element of speculation. Hence at times the markets were over supplied, at others demand fell far short of being satisfied. Prices varied over the widest range. Beer fetched for a while incredible rates; then it would be almost unsaleable. The tidings of its exaggerated value led brewers to send from England barrels without number. The first to arrive yielded unexampled profits; the last involved the English brewers in the severest losses. Here was plainly over-production, and its cause manifest. The state of the Australian beer market could not be foretold with certainty; and the high prices current attracted brewers without number into brewing out of all proportion to the capacity of the market to carry away the supply. The mischievous force here was the ease with which a brewer in any town of England could make beer for Australia. This kind of over-production, this glut of a particular commodity at a given place, has ever been, and ever will be common.

But some writers have advanced further, and proclaimed that a general excess of all products was possible. Dr Chalmers believed that but for the luxurious consumption of the rich, and the destruction carried out by war, too many goods of every kind might be made, and their sale might become impossible. The absurdity of this doctrine has been pointed out by Adam Smith, Mr Mill and many others. It is equivalent to saying that there can be too much wealth; that mankind are rich enough already; that they possess as much as they desire. The limitation of trade

comes not from men having all that they wish for, but from their having nothing to give in exchange to producers for the articles they make. A glut of any single commodity may easily happen, either because only a very small quantity of it can be used, or, which is the ordinary case, because the means of purchasing it are limited. A haunch of venison might be sent into London for every one of its families. There would be a prodigious glut, not because there was a deficiency of desire for it, but because there was a great defect of other things to give in exchange for it. Let those other things be made and provided, and all the venison would be readily sold. The trade of the world might be multiplied a thousandfold, if only there were the means of producing and exchanging. Trade is exchange, and there cannot be general over-production if there are things to be exchanged.

It is contended, however, that an excess of fixed capital, such as has been described, is in substance a case of over-production, and so it is in reality. But it is very desirable that this name should not be diverted from the specific meaning which has hitherto been appropriated to it; only confusion can arise from using the same word needlessly under very different circumstances. Over-production properly denotes a speculative supply of goods, intentionally made, beyond what it is subsequently found the demand in the market can take off. The makers overdo the thing. In the case of a great commercial depression following a period of excited prosperity, the evil result is that a large amount of fixed capital, of machinery for production, passes into the state of over-construction. Too many mills and

factories are practically found to have been built, too many coal mines opened, too many iron works erected. The demand is found to fall away from special causes —such as overspending, over-destroying, and the poverty ensuing from consuming more than is reproduced. Hence there is for a while real over-production, because the new works go on producing till they find themselves involved in ruinous loss. In true over-production the fault lies in the supply; eager producers have carried their operations too far. In over-construction, the fault rests with the demand which sinks below its previous level. These are phenomena of different kinds; they had better not be indicated by the same word.

CHAPTER V.

PROFIT.

CAPITAL leads us to Profit. Profit is the reward of the capitalist, whether in the shape of interest, or in the stricter sense, of that portion of the produce which accrues to the man who owns the business. Either with his own means entirely, or with the assistance of a lender, whom he must compensate for the service afforded by the loan, he supplies buildings, tools, machinery, materials, and the necessary maintenance of the labourers. Whether he does the work himself or whether he engages men to work under his direction, wages and profit must be provided. If he is workman and capitalist at the same time, the business must yield him reward for his labour, and further additional reward for the capital used.

The conditions under which continuous industry maintains itself are,

1. The capital engaged in the business must be replaced in full by the products; for no business goes on permanently at a loss. We have seen that capital is consumed in producing; capital is wealth; and there must be restoration of such wealth as is destroyed, not by enjoyment, but in creating other wealth. If that new wealth were not forthcoming, there could be no motive to apply any wealth to capital. Profit, which is reward, cannot begin till the replacement of the things con-

sumed has been completed. Every expense, wear and tear of fixed capital included, must first be made good.

2. If a man, as in a Colonial back-settlement, works only for his own consumption, he receives wages and profit together, he is under no need to distinguish them. But if he works under the great principle of civilised life, division of employments, he must look forward to selling for compensation. Selling is attended wth risk, especially under the system of producing goods not upon order, but in the expectation of demand coming forward to purchase them. Prices may alter, buyers may be poorer and fewer, a new fashion may have set in. If the business is carried on with the help of banking,—and what large business in England is not?—the rate of discount may have mounted up to a disturbing height. In a word, endless unforeseen causes may convert hope of profit into loss. In some operations, especially in farming, the product may not appear at all, after all the outlay for procuring it has been incurred. Now all such risks for the restoration of the capital consumed must be met by an adequate insurance embodied in an increase of price. By some writers this insurance is regarded as a deduction from profit; but the more correct way of viewing it is to consider it as an item in the cost of production, as an expense included in it. It cannot be doubted that owners of merchant vessels treat insurance as a portion of their cost; were insurance a diminution of profit, it would seem to follow that the businesses which are exposed to the greatest risks would realise the smallest net profits; but this is not true. Net profit has a wonderful tendency to stand on the same level in all industries. The hazardous ones

may show grosser returns of profit, if their accounts are so drawn up; but allowance for risk being deducted, the net result, it is well-known, tends to be much the same in most trades.

3. Remuneration must be provided for the labour, the personal services of the capitalist himself, who labours in conducting his own business. If the business of a market-gardener, for instance, gave him only a handsome return on his capital, but not enough to maintain himself and family, he would necessarily abandon it. But here a distinction must be drawn. In large establishments, such as those of great merchants or bankers, the feeling that personal wages must be earned for work done in the counting-house seldom arises. The set off to be made on that ground in the results of the balance sheet would be too small to be worth separate notice; the reward of the business is thought of only as it exists in the general profits. The merchant or banker may think himself very clever, and attribute the success won to that cleverness; but wages, in the highest form, or reward for skill, are merged in the idea of profit.

4. It follows, that after all these charges have been allowed for, the surplus product, the residuum, as Mr Danson happily terms it, will be profit; what is the nature, the principle of this gain? It is a reward for two things: for the creation and for the employment of capital. Economists have rightly explained the need and justification for such a reward for the creation of capital, that it is a compensation for abstinence. The owner of the wealth might have devoted it to his own enjoyment; he preferred to save it, to turn it into an

instrument for creating fresh wealth. It was his own voluntary act, he gave up some luxury, he finds atonement in improved income from increased wealth. His aim was profit; but profit, though it enriched him, was no selfish course; luxurious expenditure would have been the real selfishness. By going in for profit he benefits society. His savings are an advantage to others as well as to himself: the new wealth made has been acquired by the help of services which he has rewarded out of the capital he set apart. Profit is the last thing which should be grudged, for profit is the creator of capital, and capital is the life-blood of civilisation and commercial progress. The man who saves, be he prince or peasant, is the benefactor of his country, for it is capital which bestows all necessaries and all comforts, which rescues population from poverty, which sustains and increases their numbers. Nothing can be more fatal to the happiness of a people than to bring profit into discredit.

A very deluded feeling, most hostile to saving derived from profit, is widely spread amongst the shopkeeping class, and tends to propagate itself amongst those who ought to know better. They are not averse to profit, far from it, but they desire profit of a particular kind. They call the buying of luxuries good for trade. In their sense it is so, they do a good business—but what is its nature? It is pure unproductive consumption, leaving nothing behind it. The shopkeeper's part in the affair is to help the buyer to destroy wealth; this idea is the direct enemy of saving. A young nobleman is said to have ordered twenty waistcoats, for which he had no use, under the belief that he was doing good to trade. It did not occur to him that if he had saved what they cost and

lent it to a producer, there would have been the same immediate good to trade and as much profit; but there would also have been ever afterwards, an additional income of wealth for employing labourers and buying at shops; labourers and shopkeepers would have had increased benefit in perpetuity.

5. The residuum, the profit, will be responsible for a special charge in one of two forms. That charge may be appropriated by the producer, if he works with his own capital, or it may be given to a lender who has assisted him with a loan of capital. This portion of the profit is called interest, and is usually calculated as so many pounds to be paid annually for each hundred lent. It is certain that every man of business who invests capital in it will expect to earn the same interest upon it as if he had lent it to a borrower, else he would not take up the business at all, but assume, without trouble or risk to himself, the position of lender to some other man.

I am obliged to employ here the language of money; it cannot be helped. In the preceding pages all reference to money has been avoided as much as possible, nor has it been wanted for explaining the realities discussed. Political Economy, rightly conceived, ought to know nothing about money except its qualities and services as a tool when actually used. But the world is ever backsliding into money as being capital, and wages, and profits, and indeed all wealth; a kind of hard fate drives them into this feeling. It is impossible to speak of cotton, and sugar, and iron, as being profit, and wages, and loans, through all the details of each separate business; hence they are necessarily summed

up and generalised in the one common substance which measures, and as it were embodies them all. But the injury thereby done to the mind in its understanding of the real facts is enormous. It is trained to forget that the substances transferred by money are the things of which Political Economy treats. It is, therefore, necessary at the outset of a discussion in which reference must constantly be made to money to call upon the reader to remember that profits and wages are not the money in which they are spoken of, but the substances which are made to satisfy human desires and which money exchanges. A portion of the cotton spun and sold is the true profit; another portion, the true wages of the workmen at Manchester. Some of the iron made at Barrow, and some of the woollen cloths woven at Bradford, are the true rewards of the employers and their men in those places. The iron, yarn, and cloth are turned into money by the employer, the money distributed to himself and his workmen, and then the things bought with these monies ultimately satisfy the wants and desires of all. The money is first bought with the products of the industry, and then reconverted back into commodities. To an amazing extent in England, money, though spoken of and stipulated in these transactions, is never touched at all. The exchange of the things produced for the things bought is effected by a machinery of paper and account.

We now return to Profit, and bearing in mind the above caution, we shall speak more freely of money. The man who puts money, such is the phrase, into his business, will expect from it something more than the interest which he could have procured by simple lend-

ing; he will look for a larger return than that. In estimating the results of his operations, the interest on his own capital will figure as a charge, precisely as that on his borrowed money. It will not reckon as an item of profit derived from his trading, but as an item of debt due to him or to his creditor. Interest then, is not the true residuum, it is not the profit. Mr Mill pronounces that gross profits provide for three purposes: reward for abstinence in creating the capital; indemnity for risk; and remuneration for the labour and skill required for superintendence. Mr Danson follows in the same track, only laying more stress on insurance against risk. This analysis is manifestly not exhaustive. Insurance is no gain, it only serves to replace loss. The reward of abstinence is interest, which can be obtained without going into business; reward, therefore, for superintendence and skill is all which, upon this view, can be regarded as profit. But, as before remarked, this, in essence, is mere wages, it cannot be specifically profit. Profit bears no direct and necessary relation to skill in the same sense as the reward of the philosophical instrument-maker, or of the great surgeon. Many a dull merchant, or not over-intellectual banker, accumulates a vast fortune out of a business which he has inherited, and in whose management he takes very little part, if even any at all; as far as he is concerned, connection and routine do the work, or a hired manager, in whom the skill and care reside. Mr Shadwell very aptly illustrates the difference between the reward of superintendence and profit by a reference to joint-stock companies. "The managers receive regular salaries, like the clerks and artisans who are employed, and the

owners of the concern form a distinct class who receive the profits for no other reason than that they have provided the capital with which it is carried on. The dividends on the ordinary shares constitute profit, which varies according to the ability and success with which the particular company is managed. The dividends of the debentures and preference shares are interest on loans raised by the companies."* Such companies furnish clear and well-marked examples of the three different kinds of payment: superintendence, interest, and profit. Take, for instance, a railway company which gives a dividend of 10 per cent. Superintendence and skill of management have been charged in the account before the dividend was struck; so also has risk. The losses from accidents and other risks have been placed on the debit side of the account. Further—as to this item of risk, additional provision is usually made by not using up the last shilling of the balance as dividend. A sum, often considerable, is held back as reserve, distinctly to guard against risks. Then comes the dividend of 10 per cent. to the idle shareholder. Of this he reckons 4 per cent. as interest on the capital he embarked in the railway. The remainder is pure residuum or profit; and whence was it derived? From the productiveness of the capital and labour employed, from more wealth being created that was consumed upon every charge. Then again, profits vary enormously, from lucky chances, or a sudden drop in the cost of raw material, or an unexpected new market, or an extension of business through the growth of population. Abstinence, skill, and personal superintendence remain all unchanged,

* "Elements of Political Economy," page 442.

yet profit raises its head, and swells into larger dimensions. Monopolies too, as Mr Mill admits, have the same effect and augment profits. Combination too, amongst dealers, is often equally powerful, especially amongst retailers who conspire not to conform to a fall in the wholesale market. Such gains are wholly out of the region of the three enumerated elements of profit; indeed, the very idea of a general level of profits indicates that there is something more in them than interest, insurance, and superintendence.

We are compelled therefore to continue our search to discover in what true profit really consists. We are not obliged to travel far. We find it in the clear surplus gain which the employment of capital creates. It serves all the three purposes, and then there is a remainder, something over and above compensation for every charge. It still does something more. The nett product is a residuum, and that residuum was the very object for which the business was undertaken, and the capital applied. It is the work of the business itself, which pays for interest, insurance, and superintendence, and yields still something additional. It is a balance remaining over and above, after the three satisfactions have been provided, and it is because there is such a balance that labourers are able to make assaults on profits to the benefit of wages. That balance varies widely in different businesses. It may come from a number of different sources. It is incapable of being analysed further. It is enough to know that it exists.

Two other points remain to be noticed in respect of profits.

1. *Exceptionally high profits exercise a marked* power in attracting capital into the business which yields them. The capitalist naturally looks to the quarter from which he will obtain the greatest return. This tendency has been justly regarded by economical writers as a leading principle in Political Economy, but the carrying it out in practice often meets with great impediments. It is attended with much friction, so to speak, and no small uncertainty. The capitalist encounters a considerable difficulty at the outset. How is he to discover what is the real amount of profit in the business which attracts him? If he seeks information from individuals, he will get many different answers. This has been well put by Mr Mill: "Gross profit which does not vary much from employment to employment, varies very greatly from individual to individual. It depends on the knowledge, talents, economy and energy of the capitalist himself, or of the agents he employs, on the accidents of personal connection, and even on chance. Hardly any two dealers in the same trade, even if their commodities are equally good and equally cheap, carry on their business at the same expense, or turn over their capital in the same time. That equal capitals give equal profits, as a general maxim of trade, would be as false as that equal age or size gives equal bodily strength, or that equal reading or experience gives equal knowledge. The effect depends as much upon twenty things, as upon the single cause specified."*

The actual position of the capital which the capitalist proposes to invest will have much influence over the

* Book II., chap. xv.

decision. *If it is fixed capital, he must sell it before it can be at his disposal, and this may involve difficulty.* Hence the set of the tide towards employments which are exceptionally profitable will act chiefly on capital which has not been definitely appropriated, such as new wealth acquired by fresh savings or capital which for the time is at the command of bankers. Not that banks actually possess the capital itself, very far from it, but they command it and can place it in such hands as they select, and from the nature of banking, for a limited time only. By discounting a bill a bank enables a spinner to get hold of cotton. The bank never handled the cotton, but it placed the material, or capital, in the spinner's hands. This is commonly called in the city floating capital, but it is a misleading and objectionable phrase. The cotton and the other things bought with advances and discounts from banks do not float at all. They are capital moved by banks, but they are at once fixed in cloths, or yarns or other goods. The thing that floats is the power of buying lodged with banks by depositors, which they leave in their accounts for a limited period, and may recall at any time. This floating power of buying deposited with banks is one of the strongest forces which direct the movements of capital, and lead it to battle against excessive prices and profit.

2. By the confusion which Mr Mill, followed by others, has introduced into the subject of profit, he has countenanced an idea which is most widely spread in these days, and which produces mischievous results of the very gravest kind. He first tells us that the gains of capitalists depend on two elements alone. First,

on the magnitude of the produce, in other words, the productive power of labour; and, secondly, on the proportion of the produce obtained by the labourers themselves. Then he adds that the rate of profit, the per centage of gain on the capital invested, depends only on the second element, the proportional share of the produce obtained by labourers. By the help of this statement, he is brought to accept Ricardo's conclusion that the rate of profit depends upon wages, rising as wages fall, and falling as wages rise; only he draws a distinction between wages and the cost of labour—that is, between what labour brings in to the labourer, and what it costs to the capitalist. The inevitable consequence which flows from a state of facts, such as is here described, is that the production of wealth becomes a battle field, that in making commodities required by society, the services of two forces, two sets of men, are enlisted, that these men are antagonists, fighting over the division of the common fund which is to reward these services, that what one set wins the other loses, and that the unionists are right in pronouncing capital to be the enemy of labour, and is to be dealt with on the footing of combat. Such a conclusion, if true, would indeed be lamentable for the happiness of mankind.

One fatal fallacy pervades this doctrine. Mr Mill, and before him Ricardo, did not know that profit was a remainder—what is left after all charges have been paid. He did not see that wages is one of these charges and one only. Nor did he perceive that the capitalist buys labour, as he buys materials, coals, tools, and all other things required for his operations. He did not understand clearly that he bargains for labour as he bargains

for everything else, and that he runs the whole risk of his investment in these outlays ending in loss or gain. Nor was he conscious that the bargaining for labour may have gone badly for the employer, and the wages exacted have been exceptionally high, and yet that other causes of prosperity wholly unconnected with the labour market may have so come to his help, that with this rise of wages there was not a fall of profit, as he and Ricardo preached, but a rise of profit and very possibly a handsome one. It is not true that profit depends on two elements, gross produce and wages; or that its rate depends upon one only, wages. Mr Mill assumes that if the produce were doubled, and wages doubled, the capitalists would have double gain also, but upon the same rate of profit, because they would have doubled also the capital invested. But where did he get the fiction that the capital must have been doubled? From imagination alone. The introduction of better machinery might have doubled produce or wages, and yet might have cost prodigiously less than the value of the capital already invested in the concern. It did not occur to Mr Mill that, all else being the same, a business which used large banking accommodation might have its rate of profit, calculated as a per centage on the same capital, *very seriously diminished by the bank rate during the year standing at 7 per cent.* instead of 2. A heavy fall it might be, *but what would* wages have had to do with it? The coals consumed in the factory may have been much cheaper or much dearer, cotton much less abundant through civil war in America, other materials may have altered in value, and yet wages may have continued substantially un-

changed for a long period. A farmer does not alter the weekly wage of his labourers, because the rain has spoiled his hay, or the foot-rot his sheep; yet what would he tell about his profits and their rates? Great merchants buy large cargoes of woollen or cotton cloths for export to India or China. They may gain great fortunes or land themselves in ruin. What have wages to do with these events? It may be said that they are not engaged in production. True, but they are profit winners and their numbers are legion. Must a separate chapter and a separate definition be provided for these mercantile profits? So also with banking profits. We know how large and numerous they are; yet wages and labourers count for nothing there. Mill and Ricardo have given no formula for these profits, as they are omitted from their definition, but a lawful place is found for them in the residuum doctrine. Whatever be the nature of the business, profit always is the same, the surplus remainder after every portion of cost has been paid. That wages tell for much in manufacturing industry on profit no one disputes, but so does the ground rent to be paid for the mill, or the expensive machinery to procure water.

The efficiency of labour, its worth to the purchaser, what he gets in return for what he pays for the labour, is a great force acting on the success of the business, beyond doubt, but as labour is bought in a market, the purchase rests on the universal principle of what is obtained for the money. The employer takes the risk of all these outlays. He pays for labour, materials, and other things in advance. Till he has sold his goods and drawn up the balance-sheet he does

not know what the profit is. But in that balance-sheet the labourers and their wages will enter as one item—a great item—but still only one. The payment of wages preceded the sale of the goods, and not till that sale is effected does the capitalist know whether there is any profit, or how much it may be. He is sure about his cost. He is responsible for every item of it, whatever be its nature. What he does not know, till the final balance-sheet is made out, is the residuum. If it is on the good side it is profit, but it stands in no positive scientific ratio to the amount of wages paid. The labourers are one element, whether of production or of commercial business. That is their true character. Profit or loss is the final figure after all the proceeds of the sales have been added, and all the particulars of cost subtracted.

The amount of profit realised varies much both between individual traders and between employment and employment. As we have already seen, chance, habit, fashion, a particular street, often serve as a foundation of higher and not natural price, bringing large gains to the fortunate trader. The profits of different employments, on the contrary, tend to equality. When the profits seem exceptionally great, it will be commonly found that they arise from unusual risks, or from special skill, difficult to obtain and so commanding a kind of monopoly price. Yet, generally, it will be gross profit which is swollen; the net residuum of clear gain will seldom be permanently greater.

Capital, too, it is said, tends to increase faster than the means of employing it, and consequently profits to sink to

a lower level. *However much this may be true of the* past world, it does not hold good of the present age. Steam, with the steamboat and the railway, has brought distant nations into close connection with one another. It has reduced distance and the time absorbed in communicating, intercourse has been marvellously developed, and the most distant regions have been brought into nearer relation with England than countries only a little way distant were wont to be in the past. The result has been that English trade ranges over all the countries of the world, almost as if they were only counties; and whilst enormous wealth is the result, with a corresponding accumulation of capital, profit has escaped the heavy depression which seemed to be almost unavoidable. And so vast are the regions still to be opened out, so immense the developments of every form of industry to be carried forward in each, that the expansion of English trade, with its field for the gathering up of profit may continue for a long period of years, probably for centuries. If such be the course of events, England may be far off from becoming an old country.

Public opinion and legislation have at times, on the ground of moral judgment, regarded with especial jealousy the profits of dealers, whether merchants or retailers, as distinguished from the rewards gathered by producers. It is thought natural that those who make commodities needed by society should be compensated for their efforts, but shopkeepers and merchants do not add a particle to the goods they handle; they sell them in the state in which they were received from the makers. Their gains thus wear the look of addition to

cost, of taxation, as it were, sometimes even of extortion. This feeling is apt to break out with peculiar violence against dealers and speculators in corn. Their action, when the harvest threatens to be bad, excites anger. *They raise prices by their purchases;* so *they* are branded with evil names, and the law has been often summoned to step in to protect the poor against their nefarious practices. "Parliament forbade men to buy and hold large stocks of corn and similar commodities (called Engrossers), or to buy them when on their way to market (Forestallers), or to buy and sell a thing on the same day (Regraters)." *

Such ideas are as unjust as they are mistaken. They strike at the root of all trade. Trade may be described as the putting of commodities in the right place, as the bringing of them to the consumers' doors. No sane man grudges his reward to the merchant who fetches his tea from China, or his tobacco from Virginia, nor the profits of the shipowner, without whose aid this work could not be done. He may, it is true, if he so chooses, order his tea from China direct; but he would be obliged to purchase a large quantity, to keep it long in store, with danger of deterioration, and a heavy prepayment in advance long before it came into consumption. The retail dealer confers on him the enormous advantage of supplying his wants at the moment he feels them, and not before. It may well be that the article supplied has become cheaper, whilst held in stock, and must be sold at a loss. Against such a risk the dealer must be protected by some addition of price, or he would not engage in the business.

* Danson, "Lectures."

On the other hand the interest of the public and the *consumers demand that these services and their rewards should be reduced to a minimum; and for effecting this* object, competition is the force to be relied upon. These services are mere agency; they do not produce, although they be desirable and important. Retailers are often blind to this truth. They often conceive that their business exists as a matter of right; to curtail it is to be guilty of oppression. Thus the appearance of co-operative stores was resented by many shopkeepers as an iniquitous violation of natural right. As well might the broad-wheeled waggoners have denounced the iniquitous railway, with its rapid and cheap transport. Every service which ceases to be needed is superfluous, and its right to exist has come to an end.

With respect to Forestallers and Regraters, public opinion, at least in England, has changed. It has been perceived that the merchant who foresees a deficient harvest and an approaching scarcity, and sends out orders for the immediate purchase of corn abroad, in truth summons the foreigner to give help in the hour of need. He reduces the evil and averts the danger involved in the distance of foreign supplies. He may indeed raise the price in the market in which he buys abroad; nay, he may buy at home, and withhold what he has purchased from the market for a period, but this rise of price comes not in truth from the buyer himself but from the scarcity. His action is a direct averter of scarcity, or even possibly of starvation. By anticipating demand, and so acting on prices, he brings a force of great power into play. He checks consumption; he gives practical warning of the deficiency and its conse-

quences; he diminishes waste and extravagance, and thereby enables the stock in store to hold out longer. *Mr Danson puts this very happily**:—"The world in such a case may be compared to a ship at sea, and (say) twenty days' sail from port, but with provisions for only fifteen days. To let the consumption go on unchecked would be to close the voyage with five days of famine. Put each man at once on three-quarters of his usual supply, and all may eat, as well as it is possible for them to eat, till the end of the voyage. Postpone your precaution for ten days, and nothing more than half rations can be allowed. A rise in the price of wheat means, for particular localities, a call for further supplies and for the world at large it means a reduction of rations till the next harvest. But the earlier and the more extensive the reduction the less the consequent suffering." And it must not be forgotten that the speculator is compelled to give excellent security against extortion. He incurs a heavy risk of loss; he may have miscalculated the extent of the public need; he may meet the competition of unexpected supplies pouring from unthought-of quarters. If the service he renders is real and important, he is entitled to insurance against such a risk. Had he waited till starvation stared men in the face, the bound upwards would have been incomparably more violent. A Bengal famine and starving multitudes might have been the inevitable results.

INTEREST.

That form of profit which consists of interest received for money lent has been exposed to many attacks both

* "Lectures," p. 73.

in the present and in the past in respect of its morality. It is payment given to a lender for the use of capital which he has transferred to a borrower: in return for the service rendered the borrower pays a certain sum of money calculated according to the duration of the loan. It was long regarded as repugnant to moral feeling. The Jewish law forbade the taking of interest by one Jew from another. It was allowed to be levied on foreigners only. It was looked on as an act which offended against brotherly love. Aristotle condemned it warmly as unnatural and dishonourable. It was not often that the judgment of Aristotle was perverted in practical matters. He felt the same objection to interest as did the Jewish legislator. It was a gain made by one man at the expense of another. It was unnatural, because money was invented solely for the purpose of passing from one hand to another in exchanging. In itself it produced nothing; how, then, was it fitting that what itself created no produce should bring back reward, as a kind of offspring, to its original owner? The Roman Catholic Church denounced it as mortal sin. Before the Reformation it was prohibited in England. Limitations of its amount have been made in most countries. The legislation of great States at this very hour forbids a demand of interest beyond a certain rate. To levy interest then seems an oppressing of a poor man by a rich one.

These feelings utterly misunderstood the real nature of interest. The idea of money was ever present, and none other. By the very act of lending a man seemed to show that he had no use to put his coin to, not even to spending it on himself; how then could he justi-

fiably exact a charge for allowing a brother man to employ that which was remaining idle in his own hands?

Bastiat puts the objection excellently: "Money, it will be said, does not reproduce like your sack of corn; it does not assist labour like your plane; it does not afford an immediate satisfaction like your horse." It is incapable by nature of producing interest, of multiplying itself, and the remuneration it demands is a positive extortion. It was not seen that money was only a ticket which could procure goods out of shops, and that what was really lent was materials; tools, provisions, and other things wherewith to carry on labour. Then Aristotle and others forgot that the money had been purchased with commodities—that the men who possessed coin had lost goods, property.

Socialistic ideas helped to propagate the delusion. The right of enjoying property is made subject by them to the obligation of labour. What the rich consume is the product of the toil of the labourers. Such a relation is a violation of natural justice. Still more unseemly is the command over the labour of others transferred by inheritance to men who have never themselves performed any service in accumulating property. They have done nothing to benefit society or to increase the welfare of others; yet they sweep away what others have made. To men animated with such feelings interest paid on borrowed money appears to be a yet grosser form of the same injustice. The rich man pays wages to those who perform his work; the capitalist lender only receives. He obtains interest year by year and yet he receives back in time all that he lent. Usury is thus pronounced to be indefensible, not only when it takes

advantage of the straits of the needy to extort rapacious terms, but even in its most moderate form: it has no right to exist.

A fatal misconception, as I have said, pervades these ideas on interest. If, indeed, property is declared to be an immoral and unjustifiable institution, then, of course, interest must be involved in the same condemnation. But this is communism; whilst the special objection to interest pre-supposes the existence of property. The mistake consists in not perceiving that the principle of reciprocal service, as the basis of reward or payment, is fulfilled in a loan granted on interest. The capitalist has an interest in the loan, but so also has the borrower, and almost universally in a higher degree than the lender. The fact that he is willing to pay interest for the loan by itself alone proves that he conceives he is gaining an advantage by it; and if service given to the lender brings him benefit, he is bound to give a benefit in return. Not to render service for service would extinguish all labour for others, and soon destroy civilisation.

The objection that money generates nothing is futile. In all loans the things lent are what the money buys. The capitalist who lends and takes interest puts useful wealth in the hands of the borrower. The banker who makes an advance to the merchant on discount lends him the cotton which is traversing the ocean. The small capitalist who lends some hundred pounds to a small man stocks his shop and sets him up in business. The capital borrowed produces results which more than repay the interest: it creates a profit. That profit the capitalist foregoes

and gives up to another; he suffers no wrong, therefore, in being charged with interest. Quite the reverse; without that interest he could not have obtained the use of the capital bought with the money, and the profit never would have existed for him. The fact that men borrow upon interest proves that there is a gain in borrowing great enough to make it worth while to pay the interest: and this is decisive. To forbid interest is to extinguish one of the greatest motives for saving. It would prevent countless wealth from coming into the hands of those who use it as capital, to their own benefit and that of the whole community.

But at any rate, many affirm, the rate of interest ought to be limited by law. Such a demand betrays a lurking feeling that lenders are by nature oppressors, and borrowers victims of exaction. No one, except socialists, dreams of prescribing prices to producers of goods, yet monopolists can extort quite as easily as lenders. Such limitation took the place at the Reformation of abolition of interest, and continued in England almost down to the present day. But it forgets the true relation between the parties. As a rule, the borrower is far more eager than the lender. There are innumerable men and firms who cry at times, "never mind what you charge, only let me have the accommodation." That implies weakness, it is replied; the law is bound to step in to give protection, there may be excess. But how will the borrower feel? Will the great mercantile house, which, though solvent, is threatened with stoppage in the agony of a crisis, thank the kindness which drives the banker, ready to lend, to say: we are not allowed to charge more than 5 per

cent., and at that rate we decline to lend? To suppose that the endangered borrowers who clamour in a crisis for loans at 10 per cent., or even twice that sum, feel themselves to be the victims of the bank, is simply ridiculous. Their only anxiety is that they should not be able to borrow enough. Limitation drives men into conspiracies to evade the law. Interest is paid in advance under the form of discount on a bill given: and judges are brought in to enforce payments which they know to be in direct violation of the law. Similar evasions are practised with like success in France, as Mr Danson well describes.

And now, what is the consequence? The breach of the law creates risk; the stratagem relied on may fail, and the debt may not be recoverable. Insurance must be paid against such a danger, and an increase of interest, often a heavy one, is imposed upon the borrower, for whose protection the limitation was invented. A useful and necessary service is thus loaded with arbitrary restrictions. Borrowing will go on and ought to go on. Almost the whole trading community of the nation has borrowing from banks and other sources as an integral part of its machinery. Yet the law is asked to step in and to inflict penalties on lending. For what reason? to prevent extortion. But what is extortion? Loanable capital is an article offered in a market; can the law know its value better than those who seek to acquire it? In times of commercial peril to borrow, even if on excessive terms, is often to save a business; what right has the law to strive to render such an act impossible or to brand it as immoral? Experience furnishes a decisive answer.

Limitation has been abolished in England; has the press been flooded with the language of complaint? Are borrowers full of resentment? Are they indignant at the rates charged in the City and elsewhere?

But there are, no doubt, wicked practices, positive crimes, against which society ought to be protected. Usurers tempt the young and the foolish with loans at high interest, and the consequence is ruin. But is the folly of such persons, who are necessarily few, a sufficient reason for punishing the whole community, not of lenders, but of borrowers, who seek a most valuable service? But indeed, a law of universal limitation of interest is not the proper remedy for the evil. Judges can easily be provided with reasonable powers of revision in special cases. Many contracts, of various kinds, are cancelled by the courts as iniquitous and immoral; they might be entrusted with the same discretion over interest with the approbation of all.

And now, what are the causes which regulate the amount of interest? Lending is a service on sale in a given market; precisely as the labour of workmen offers itself for hiring. But there is always a special element in lending; there is always a risk, sometimes an enormous one, that the thing lent, along with its reward, will not be recovered. Wages paid in advance would be a parallel to a loan; the man may be idle or get drunk, and the stipulated work never be performed. In no market does risk, with the insurance to be given for it, play so large a part as in lending.

How then is the value of the service of lending determined? Like every other act of exchange, by the law of supply and demand, plus the insurance against risk.

Few things on a large scale, if any, have their price so powerfully affected by the fluctuation of supply and demand as lending. The demand may spring up like a storm; so vehement may be the desire to borrow, as is often seen in commercial panics. In the determination of the ultimate price of a loan, the true nature of value, as has been previously explained, receives a remarkable illustration. The character of the demander, the opinion framed of the certainty of the exchange being completed by the payment of the interest, and the repayment of the debt, are most governing factors in fixing the rate of interest. It is mind which estimates and judges and gives its form to the feeling called value; it is this feeling which rules that one loan must pay 5 per cent., another granted at the same time 50.

The variety of loans in the lending market strikingly resembles that of flowers; so manifold are their forms, and still more the colours which they wear to the lending mind. Sometimes it is the state of the demand and supply, more frequently the quality of the security offered against risk which creates this multiplicity of form. For steadiness and for cheapness combined, the consols of England are unsurpassed. Faith in the safety of the loan is perfect, that faith being the offspring of the opinion held of the character and solvency of the people of England. This opinion is so strong that investors are ever ready to buy an annuity of £3 a year at a price not far short of £100. Next to consols in the possession of these great qualities come mortgages on land; the rate of interest is somewhat higher, but the steadiness a little stronger than that of the funds.

It has often excited great surprise that when the money market is agitated by violent storms, and loans are not to be procured, if even at all, except under exorbitant interest, the mortgage-market dwells amidst the serenest calm; the ruffle on its surface may not exceed ½ per cent. On the other hand the bank rate may descend to 2, and advances be freely obtainable at 1, and all the while the interest on mortgages retains its dignified repose. The feelings of the lender and the borrower are the creators of this result. They are not the same men as those who dwell in the banking and commercial worlds. The lender desires a safe and permanent investment. Steadiness of interest, next to solidness of security, possesses the greatest importance in his eyes. He looks upon a varying interest with repugnance; income to be relied on is what he seeks. He repels an interest of 6 per cent., if next year it is to fall to 2. On the side of the borrower, to have the loan undisturbed for a long time is a main object; to change or disturb his lender when the value of money lent seems to fluctuate would defeat the end he seeks, and would ultimately land him in having higher interest to pay.

The force of opinion in the determination of value is singularly shown by the varying prices of Government stocks in relation to the rate of interest which they yield. Here feeling, whether founded on fact or imagination, controls the action of the investing capitalist Mr Shadwell quotes from the "Journal of the Statistical Society," for 1874, a table drawn up by the late Mr Dudley Baxter which places this great principle in the fullest light.

A table from a paper in the "Journal of the Statistical Society," for 1874, showing the different rates prevailing at the time.

LOW INTEREST.

3 Per Cent. States.

	Interest per cent.
United Kingdom,	3¼
Denmark,	3¼

4 Per Cent. States.

Holland,	4·0
Belgium,	4·0
German States,	4·0
India,	4·2
Canada,	4·6
Australasia,	4·6
Sweden,	4·9

MODERATE INTEREST.

5 to 6½ Per Cent. States.

Morocco,	5·0
United States,	5·1
Brazil,	5·1
Russia,	5·3
France,	5·3
Natal, Cape of Good Hope, Ceylon, and Mauritius,	5·7
Chili,	5·7
Argentine Republic,	6·3

HIGH INTEREST.

6½ and 7 Per Cent. States.

	Interest per cent.
Portugal,	6·7
Japan,	6·8
Hungary,	7·0
Austria,	7·5
Columbia,	7·4
Roumania,	7·8

8 to 10 Per Cent. States.

Uruguay,	8·0
Italy,	8·2
Cuba,	8·2
Egypt,	9·0
Peru,	9·7
Ecuador,	10·0
Turkey,	10·7

EXCESSIVE INTEREST.

Guatemala,	14·5
Bolivia,	15·0
Spain,	16·5
Mexico,	17·5
Costa Rica,	22·0
Paraguay,	25·0
Venezuela,	25·0
Greece,	33·0
Honduras,	66·0

These figures do not give the nominal rates of interest, covenanted by the legal conditions of the loans, but the interest they would bring to an investor who purchased these stocks at the prices of the day. Accidental circumstances obviously create great variations in such figures. France in 1874 had just emerged from desolat-

ing war: at the quotations of the present day she would take her place in the list of Low Interest.

One fact comes clearly forth from this table which deserves attention for the illustration it gives of the benefit which a colony can derive from a mother country. Australasia takes rank among the States which borrow on Low Interest, and that great position is due to her connection with England. The rate of interest on capital lent is naturally high in those regions—not because there is any peculiar risk involved, but because it is scarce, and possesses great productive power in accumulating wealth under the peculiar circumstances of a colony. Industry, which is mainly agricultural, gathers up great results at trifling expense. The yield of corn per acre may be small compared with what it is in old countries, but the virgin fertility of the soil has not been exhausted by long cultivation, manure is not so urgently needed, the climate calls for no expensive farm-buildings, the land can be purchased or hired cheaply, and is exempt from high rent. Cattle, and especially sheep, repay slight care with bountiful returns. A large relative produce against small cost are the very conditions which bring high remuneration to both capital and labour, and yet leave handsome, fortune-making profits to the cultivator. This is what may be called the Colonial State, and it is characterised by the two distinctive features that both interest and wages are naturally and legitimately high, and are paid with as much ease as the low rates of each prevalent in an old country.

But incomparably the largest amount of the general loan fund of England is contained in that portion of the

money market which deals in discount. It is mainly under the control of bankers; and to say this is to proclaim that the rate of interest, the consideration to be paid for the service of lending, is more subject to violent fluctuations in this region than in any other. A full explanation of the market for discount cannot be given here; it must be adjourned to the Chapter in which banking will be considered. The loan fund, with which banking deals, is commonly called floating capital. It is appropriated to no special and permanent investment. It moves about—is lent for short periods; it is in the hands of one man to-day, of another a month later; it helps at one time a merchant whose wool is on the sea, at another a speculator on the Stock Exchange. It floats; its nature is radically different from loans invested in fixed appropriations.

But the phrase floating capital is a very loose one, and is exceedingly apt to mislead. Where is the capital, which is thus called floating? This is a question of the highest importance for a clear understanding of banking. The banker lends with pieces of paper, be they bills or cheques—cash, that is, coin and bank-notes, constitute but a trifling portion of his machinery. These are the things he handles; if he has anything to do with capital, where is it? To call the pounds indicated on these papers, or registered in his ledger, capital, is to contradict the very definition of capital, to destroy its nature, to render the explanation of the real facts impossible. Yet the lender who makes an entry in his books to the credit of a borrower, and authorises him to draw cheques or bills on that account, very really transfers property, and thus truly lends capital to

a man who without this machinery of paper would not have had the capital. He is able to do this, because the paper is endowed with the power of purchasing commodities, and these commodities are capital. The merchant and the manufacturer by the help of the discounted bill or the drawn cheque obtain materials or machinery for carrying on their business; they acquire what is very really capital; they obtain the things necessary for producing wealth. But where—and the question is critically important—where was all this capital before it was lent and transferred as loans by the action of the banker? Plainly, in the shops and warehouses—and this is a fact which few discern and bring into its necessary prominence. The capital—none of it except coin—is not in the hands of the bankers. What the bankers possess is purchasing power, the means of buying goods and property, and that purchasing power they can and do transfer from one set of men to another. They thus exercise direct control over ownership of capital; they enable a borrower of these means of buying to go into a market and procure goods which without the banker's aid he could not have obtained. They are paid for with cheques, which the banker authorises the borrower to draw upon him. This purchasing power which the banker lends is derived from debts, expressed in cheques, bills, and other papers, paid in to him by depositors. He collects them, but not in money, in London at least and other places, but by setting them off against the cheques which he authorised his borrower to draw. The two sets of cheques meet at the Clearing House—a balance sheet is drawn up—and the banker pays with a cheque on the Bank of England the

small balance, either for him or against him, as the case may be.

Such is the banker's action. He begins with a debt to collect, and ends with a debt which he permits his borrower to incur towards him. There is no capital in all this—no property touched by the banker—no goods, no wealth; paper only, with a trifling exception of cash. Yet each transaction deals with goods, but not the banker. It is the depositor who deposits cheques received for wealth which he has sold, and the borrower who buys other goods with the purchasing power he borrowed, who handle wealth and exchange it. To say, then, that bankers have floating capital is an untrue expression; but they do possess a floating thing, and that is floating purchasing power. That is the true formula which describes what the banker deals in. That buying power floats, because it is not permanently invested: it is lent to one man for a brief period, returns to the bank, and is again lent to another. The capital—that is the property which has passed from one owner to another by the help of the bank—does not float; it is as permanently used, by a single action, as any wealth bought without the intermediate agency of a bank. The manufacturer buys cotton with the floating purchasing power—speedily returnable—which he got from the bank; but the cotton he immediately consumes and converts into yarn. The cotton does not float, but the power to buy does.

The supply of the means to lend and to purchase presents many interesting features. The growth of civilisation, the multiplication of new fields of industry, the rapidly-expanding intercourse of nations with one

another, their ever-increasing confidence that a debt due by a man *dwelling in a foreign country* will be duly paid—these and other causes spread the process of borrowing over a vast number of localities. The industries and trades worked all over the world with capital—not money, but goods exported—borrowed from England, are incalculable. Mr Mill has laid great stress on the tendency of profits and interest to descend to a minimum, as smaller returns come in from successive applications of capital, especially to land. Theoretically the doctrine is indisputable. In the latter days of the world all land will have been brought under cultivation, and increase of yield will be extremely difficult. But the theory will have little practical value for many ages to come. The movement is distinctly now in the opposite direction. This set of the tide, this marked tendency of the last fifty years to enlarge the field of labour, to place old nations by trade and capital more in the position of new ones, to convert the development of country after country into, as it were, the acquisition of new lands for mankind, and thus to intensify the motive for saving, Mr Mill failed to perceive. He was blind to it when he spoke of land. It never occurred to him, as will be shown later, that the fields of England had been increased by millions, that America, Russia, India, the Colonies, in a word, innumerable countries, were asking for the products of English industry, were summoning England to save more capital, and invest it in new manufactures, were offering their own wealth in exchange, and that profits, wages, and interest were set upon the rise.

In no sphere is this intercommunity of nations more

visible than in that of interest and loans. The stock exchanges of Europe are full of the stocks of distant countries: the railway, the public press, the telegraph, and the steamship, have bound peoples together as if they were provinces of one universal state. Of this vast state London has become the capital. To be able to borrow in London, to stand in good repute with its capitalists, is a strength coveted by mighty empires. If discount rises or falls in London, the effect vibrates through every other stock exchange. Funds for the money market are rapidly sent to or from the English market. The consequences of this unity of movement are diverse. The supply of the means of investing are enlarged. French, German, Austrian, and other monies, as they are called, appear in London: a change supervenes and the streams pour back to Paris, Vienna, and Berlin. On one side, the tendency of this financial fraternity is to diminish the rate of interest; there is more to lend in all the markets. In relatively poor countries means are acquired more cheaply for industry. The development of their production is facilitated, English and other loans come to their help, and interest points towards a fall. But how will it be in England and the richer countries? It might seem as if a market already gorged with resources difficult to employ would be oppressed yet more severely; this effect, undoubtedly, has been felt in London. The Germans lodged large sums in the London banking world, and told heavily at times on the money market.

But it would be to take a narrow view of the facts to suppose that a lowering of interest is the necessary consequence of the appearance of foreign funds in

London. The increased sense of fraternity and security, which led to the intercommunion of the money markets, generated also a very strong desire in less-developed countries to acquire the fitting machinery for creating wealth, to obtain capital for agriculture, for manufactures, for shipping and harbours, and above all, for railways. They became eager to borrow in England, and Englishmen were willing to lend. The being able to lend was of infinitely greater importance to England than the gain of additional power to borrow.

This view has been controverted in many quarters. It is admitted that the purely investing portion of the British public, men who have purchasing power which they cannot themselves make use of, but which they are willing to transfer on loan to foreigners, may be largely benefited by the appearance of additional borrowers; but the people of England itself, it is argued, especially the labourers, are injured by the process; the capital, that is the commodities sent abroad, are a loss to them. They are, as it were, made non-existent, they create no call for English labour, they bring no gain to England save the interest received. How different would the effect have been had these commodities been applied to the extension of English industry!

The answer to these objections depends, in no small degree, on a broad and very important principle. Political Economy has not for its aim the enrichment of a particular people. Its subject is the wealth of nations. It knows nothing of the distinction between natives and foreigners, except so far as the distribution of mankind into nationalities tends to create laws in various countries, which oppose freedom of industry

and trade, and interfere with the more natural and fitter course proclaimed by its teaching. Trade is always an exchange of equal goods, and Political Economy asks no questions about their nationality. This all-important truth has a great voice in this matter of international lendings, and is supreme in the domain of free trade. It follows as a direct consequence from this principle, that if the capital sent away from England to a foreign country—and it is always sent away, be it remembered, in goods, not in money—generates in it a production of wealth, which is exported to England in exchange for English goods, it makes no difference to England whether that capital has been invested in her own territory or in a foreign one; English labour has been equally benefited in both cases. The consumption of the capital in England would have resulted in the production of a stock of wealth by English labour; but if that capital had been invested in America, in the creation of an additional quantity of cotton, which was sent to England in exchange for English goods, then those English goods sent to America would have given additional employment to English labour, to an absolutely equal extent with those which would have been made, if the capital had been employed in England instead of in America. English capital lent to Australia has built up the great trade between that country and England, and along with it, the large extension of industry and of the employment of labour in England.

On the other hand, the loan may be applied abroad to purposes which do not supply goods to send to England, and do not directly increase English trade.

It may have been used in the construction of railways, an assistance which England has bestowed on so many foreign states, or China may have employed it in developing purely local industry. Directly, the gain to England is solely the interest which she annually receives, but here we must draw an important distinction. If the loan has been granted by England out of savings, out of surplus wealth won above consumption, then England is not made poorer by the loan than she was before it was granted; but there is a great principle which governs this question, which produces powerful effects. The progress of other countries, their growth in civilisation, generates a sure and constant development of exchange with each other, and especially, under the existing circumstances of mankind, with England; they increasingly desire English products, and England desires theirs. Tea from China, cotton and corn from America, wool from Australia, indigo from India, become the subjects of ever-expanding demand in England, and these countries gladly take English goods—the fruit of English labour, in return for what they send. In this great matter, nothing develops a country more than railways. The railways constructed with English money, bring corn to the sea-coast of America and Russia; lands formerly shut out from the rest of the world, are made part, so to speak, of the common agricultural machinery of collective humanity. Food can now reach England through the help of these railways, and food is what England most needs, and what is most essential for the support of her labourers. The enormous expansion of English trade, its vast exports, the

products of English labour, are due to the progress of other countries beyond all other causes, and if English loans have helped that progress by enabling its instruments to be provided, they have multiplied the international exchange of commodities, and thereby fed English industry, and rewarded English labourers with additional wages, and English capital with augmented profits.

We thus reach the conclusion that it is the manner in which the English loan is applied in the foreign country, which determines whether the export of English wealth does or does not benefit the industry of England, and those who profit by it. A loan to a spendthrift foreign people, which has consumed its wealth and merely seeks to satisfy its creditors, whatever may be the security given for ultimate repayment, is merely a gain of interest to England, and in every other respect is as pure a waste, as if it had been hoarded in gold in the Bank of England's cellar. If, on the contrary, it has been absorbed by sending out emigrants to Australia, who produce more wool for the increase of English trade, the effect is precisely the same as if it had been laid out in Lancashire or Yorkshire.

CHAPTER VI.

WAGES.

I.

WE have now arrived at a subject which in the actual position of society throughout the civilised world is, along with free trade, the most important and at the same time, in some respects, the most difficult in all Political Economy. The prosperity of nations and the welfare of all classes of the community are most closely associated with the direction which public feeling and national legislation may take on these two paramount questions. Yet here precisely, in reference to these very matters, we are driven to re-echo the lamentation which Mr Goschen poured forth in the House of Commons on June 29, 1877. Democratic feeling throughout the world rejects Political Economy. It is held to be hostile to the interests of the mass of the people. It is looked upon with indifference, as something unreal, as ignorant of the ways of human life. It is regarded as the idle talk of a set of doctrinaires, who know nothing of human nature, nor of its position in the actual world. People refuse to listen to what it has to say. Why busy one's self with that which has no claim to be considered? Even the House of Commons has learned to sympathise with popular feeling. The authority of

Political Economy is on the wane there. It has gone into philanthropy. Its legislation has sought to protect the toiling labourers, who produce all the wealth the nation possesses, against the oppression of unfeeling theorists. It passes laws which rescue the poor man from the greedy tyranny of the capitalist.

This is a grave matter indeed—none can well be graver. A very plain and direct issue is raised. Political Economy is true or false. Let the question be tried with the utmost severity and sternness. But it must be tried at the bar of reason, not of sentiment. Much spurious science, as was shown in the first Chapter, has been thrust upon Political Economy. By all means let it be refuted and cleared away. That is not Political Economy. True Political Economy professes to recognise certain conditions imposed by the Creator on human existence on earth, and to analyse what is implied in them. If it does these two operations badly, if it mistakes error for truth, fond imagination for accurate fact, let it be rejected. Its teaching can then be only mischievous. But let the error be established by proof. If these conditions are the laws of human life in respect of its material well-being, sentiment cannot get rid of them by giving them bad names. Political Economy has exhibited false theory in plenty, but is false theory, theory contradicted by fact and having its root solely in the sense of the agreeable, unknown to philanthropy? Nay, is it not eminently rampant and peremptory in this very region of capital and labour over which democratic feeling claims such commanding authority? Sentiment might insist how nice it would be to forbid the day's work ever to exceed four hours. Would

Political Economy deserve to be reviled, if it declared that in that case multitudes of human beings must go out of existence? Does sentiment refute the assertion by disliking it? In this most serious matter of the relations of the labouring classes to society, democratic sentiment finds powerful motives for the selfish side of human nature to fling contempt on Political Economy, and to invent doctrine and theory of its own; but where the very terms of existence are at stake, there can be but one supreme issue between Political Economy and its despisers. Are the assertions made on either side, —not generous, or philanthropic, or noble,—but true or false, as judged by the realities of man's nature, and of his position in the world? To err here, and to construct conduct on the error may mean for countless millions, misery, sickness and death.

Political Economy, however, and philanthropy have each of them their legitimate spheres by the side of one another. Political Economy is a subordinate body of knowledge only. It assumes wealth as its end, but does not compare that end with the other objects of human life. The pursuit of wealth is not the paramount duty of mankind to which everything else must give way. On the contrary philanthropy and morality and social philosophy are authorised to declare that there are states of life and practices which must be avoided at the cost of loss of wealth, or even of poverty. Political Economy can show with the greatest ease that nothing is more antagonistic to the production of wealth than war. Yet every nation at times prefers war to riches, and the voice of humanity does not condemn them. There might be social arrangements enacted for the

production of wealth, or particular kinds of wealth-producing labour, which a people would prefer death rather than submit to. Human nature would be justified to reject wealth rather than endure such practices; only let the judgment be fairly given on its true grounds. It would imply no condemnation of Political Economy. It would simply affirm that some processes which upon the principles of Political Economy might be shown to be capable of producing wealth are accompanied by evils of such a kind as to forbid the acquisition of such wealth. To pretend that in such cases things recommended by Political Economy had been scouted by reason and right feeling would be as grossly unjust as to rail at the science of medicine, because it might point out an effective poison to a murderer. Man is but an imperfect being, both individually and socially. All his organisations are subject to mischievous defects and errors, and those which he has framed for the production of that wealth without which life itself could not subsist can never be withdrawn from the legitimate criticism of those who think that they offend against right sentiment, or philanthropy or any other natural principle.

The materials of which wealth is composed are furnished by the earth and its atmosphere. They are transformed into new combinations by human labour, and the results are commodities ministering to the wants and desires of mankind. Labour requires that a previous supply of food and instruments should be provided beforehand. These things are called capital. Capital is obtained by saving and abstinence, and has for its motive a portion of the products which it creates. That portion is called profit. Equally must the labourer

have a motive for the effort that he contributes. If he is in the savage state, he labours for himself and his family alone. He is capitalist and labourer in one. He does not think of a reward as such. He desires a thing, and he wins it or makes it. But another element makes its appearance in the situation when one man labours for another, when the second man is to be the owner of the product of the exertion. He must possess in some way the means of persuading the labourer to work for him. Reward for reciprocal services is the fundamental law of social life. In the case of labourers that reward is called wages.

Who are to be called labourers is a question which does not admit of an accurate answer. There are many who earn wages under the name of salary or pay who are not termed labourers, though they labour for another, and work under his direction. Ministers serving under the orders of Parliament, civil servants, soldiers and sailors of every grade, clergymen, and judges receive wages, but are not spoken of as labourers. Labourers in contradistinction to capitalists, are persons who commonly own little property, who derive their maintenance from the work of their hands in the mechanical manufacture of wealth, who are hired to perform this service for an employer, and live by the payment which they receive from him. Thus their income is practically derived solely from the service they render in labouring. But wages imply two conditions. They are given to free men as an offer made by the employer in return for a service and accepted by the workmen; and, secondly, they exclude all payments given as charity. The relation between employer and

wage-receiver is one of business exclusively. Gifts belong to an absolutely different category. Very mischievous consequences would result from confounding any form of charity with wages. They are intrinsically different in nature, as well as in all the ideas and principles associated with them.

Under the institution of property adopted by every nation in the world, the fact of the want of property places the labouring class, over against capitalists, as a body of men seeking to earn their livelihood by working for an employer. Without employment from those who possess capital, they would be in danger of starvation. On the other hand, the capitalists are under a corresponding necessity of offering reward to persuade men to work for them. Without labourers, unless they cease to be capitalists and become labourers themselves, their capital would perish, and they would be brought within the same danger as unemployed labourers. The need of each other exists on both sides. But the employers are few and the labourers a multitude; the capitalists have means, the labourers possess fewer resources. If accident, or want of work, or scarcity of food supervene, the danger falls on the workmen far more swiftly than on the capitalist. His wealth interposes a delay before starvation can reach him. The labourers in the day of distress are driven to competing with another for employment; they may beat each other down to a minimum of wage. The capitalist, on the other hand, in most great trades is subject to equally severe competition; but ruin never appears to be upon him so visibly as upon the labourer. Such is the process by which social life is worked amongst most nations. It

is obvious that it must often give rise to situations which cannot fail to excite dissatisfaction as well as sympathy.

It cannot be considered a matter for wonder, if the feelings of suffering or jealous men and the thought of educated minds have prompted the inquiry whether this division into employers with and labourers without wealth is the necessary or the desirable form of industrial life on earth. Ideas have been generated, strongly characterised by what has been called the socialistic type, which proclaim that a far wiser and a more human structure can, and consequently ought to be given to these relations of men to each other in meeting the common need they have of one another for sustaining life and developing progress. They take their stand on declarations of positive right. Labour, they truly affirm, is the condition on which every want is supplied; hence they deduce the principle that no man is, or can be, authorised to enjoy without labouring. Inherited wealth is a violation of the rights of others. It confers a power of enjoyment which can find no justification. Those who make the wealth alone possess the right to have it. Wealth not earned by work is spoliation; it is taken away by the force of what is called law from its rightful owner. If labourers refused to work for the rich, the rich would be compelled to earn their livelihood by toil like other mortals, and the fundamental law of human nature would be obeyed. If the rich refuse to do justice to the poor, then the law of the State is bound to enforce natural right, and to set up national workshops for the support of the poor out of the public taxes. Others with irresistible logic pursue this line of thought to its necessary consequence. "Property is theft!" cries

M. Proudhon. There can be no such thing as property without violation of a right of which every man carries the unchallengable title in his own heart. Property belongs to all. Human nature forbids poverty so long as there is anything to divide. Men must work in common, and share its products in common. '

These claims take us out of the domain of Political Economy; they send us to the higher authority of political philosophy. The answer to them is simple and decisive; they are founded on pure illusions. Such a thing as an absolute definite right, belonging to a man personally, which cannot be taken from him, even by the law of his nation, except by a deed of force and violence, equivalent in nature to murder, does not exist. "Man was born to live in society," said Aristotle, and that fact is supreme over his whole being. He must live in combination with others.

Against the supreme control in all things of that society of which he forms a part, a man can plead no absolute title or right which that society must respect, whatever may be his opinion as to its fitness or desirableness. No man can say to the State to which he belongs—"I claim, on the ground of personal right given to me by the Creator, to do this, and I forbid you to do that in respect of me." Every man is embodied in his own people; he must share their fortunes and be involved in their acts; and their acts are finally and necessarily determined by the will of the whole society as expressed by its laws.

Every man has lived his life on earth, under the dominion of these laws ever since the world began. The law of the nation has always, and ever will, dispose

of everything within it. Even his own body absolutely belongs to no man. In many of the most civilised nations he is taken away from his home, and made to expose himself to wounds and death, whatever may be his own feelings. He can plead no right to prevent such a seizure of his person. He is told—*Salus populi suprema lex.* This very expression is only a manner of declaring that society is supreme over everything. Such language as public policy, the good of the people, public duty, proclaims the same idea. Man is a member of a society and must obey it, not because it wields the power of the sword, but because it is constituted, by the very nature of human life, the final ruler in all things.

But, it will be said, this is to surrender man's life to the dominion of force. In the last resort it is so. Every people on earth have so acted. But does, then, might make right? God forbid! For then—human life would not be worth the having. The very question itself reveals a power distinct from force which comes to the protection of human existence, and raises a strength powerful enough to control force. This power reviews and judges, and though lodged in the weakness of each individual human breast, is able to modify and conquer mere might. This force is moral feeling, the sense of right and wrong, the perception and the acknowledgment of the supremacy of what is morally and reasonably fitting and proper. This sense of right exists in every individual human being, and it possesses an authority over the mind and conscience which no mere might can destroy. Every man can judge the law for himself, whether its commands are right or wrong, and the collective judgment of many men becomes public

opinion. To that public opinion all civil power is ultimately amenable; and it may be strong enough to overthrow, by revolution, a form of government which outrages the general feeling. This public opinion—which is nothing more than the judgments of a number of individual men—becomes the will of society; and then it is only a question of physical strength whether it can assert itself against the power that rules. As nations advance in moral and intellectual progress, every government is made to feel that it must take into account the public feeling of the people. It cannot escape the danger of being challenged whether the rulers or public opinion express the true will of society. The measures and the action of what is called the State cannot escape the criticism, and possibly the insurrection of those who are subject to it.

The liberty of uttering these criticisms, and thereby combining many individuals into a collective force, has been the object of incessant assaults from those who wielded civil power: it has been restrained by every form of violence. Nevertheless civilisation progresses, and with it the ability to think and to judge, as also the power of exercising that ability. No institution is, or ought to be, exempt from such revision. Communism is entitled to declare that property is a mischievous institution, and to call for its abolition. But it cannot do this on the ground of a simple declaration that property is forbidden by nature independently of all examination of its merits. Communism is bound to persuade society that property is inexpedient or injurious to the happiness of mankind. A communist cannot say to society that "its will to have

the institution of property" cannot stand against his declaration of natural law.

We now return to Political Economy. Tried at the bar of reason, on its merits, Communism, as a system which rejects property, cannot maintain itself. The universality of the existence of property in every age and every land, throughout the varied history of the human race is by itself alone decisive. The instinct thus revealed is proved to be rooted in the very essence of human nature. The baby clutches the toy as his own. I made it and it is mine, is a sentiment which asserts property in every human soul. Those who demand that those only who make should possess—that labour is the sole title to possession—stand plainly on the principle of property. Thus pure Communism has arrayed against it an irresistible weight of natural authority. It is incompatible with the distinctive characteristics of humanity as revealed by universal history. If the system it inculcates is examined, the grounds for its condemnation will be apparent. Supposing every man to have been set to labour, how are the products to be distributed? In a village community, living in independent isolation, the task would be comparatively easy. When agriculture and the lowest arts only are practised, equality of labouring and sharing might be adjusted. But such a society would obtain necessaries and enjoyments only on the lowest scale. The great results of civilisation would be wanting. Is it credible that men would consent to persist in such a system as bringing them higher happiness than the method of property—so natural to their instinct, and, as shown by experience, so full of progress?

But when Communism approached the large groups of human beings called nations, to carry out its doctrines would be hopeless. Under the system of No Property all men become equal. It is impossible to believe that the masses endowed with muscular strength would endure any other mode of division than equal shares of the things produced for equal measured labour. All must work equally hard, and every one must have exactly the same share of the food and other things made. On the basis of equal work done, the bodily strong—and they are the multitude—would endure no other rule, in a nation constructed on the principle of No Property. But how would it fare, then, with those whose bodies might be incapable of what is understood as hard work, and yet had those qualities of mind which are indispensable for giving its highest efficiency to labour. How would work of mind be dealt with? how measured against the labour of the navvy and the miner? Upon what principle would mental work be called forth?

This difficulty is fatal to Communism without property; it could not solve the problem, except by violating its fundamental principle. How is it possible to procure thinking and its results except by reward? A labourer might be ordered to dig a definite piece of ground on the condition of his receiving his share of the common stock of things at evening; but how is the quantity of thinking to be specified and measured, which should give brain work its title to the common share? How is a day's work of thinking to be prescribed in the morning, and by what rule is it to be measured at night, to learn whether it has been done? It is impossible to procure thinking and its results ex-

cept by reward—if the thinkers got no more in any case than the hodmen, they would think little and think badly, and the cry would arise that they had not earned their share of the common stock. If, on the other hand, good mental work was brought out by reward, as the only possible method of procuring it, then the door of Communism has been forced. Property, in the shape of a greater share, has gained an entrance. Those who have peculiar qualities become able to appropriate to themselves larger shares than those less highly endowed, and Property becomes master of the nation. Pure Communism is an impossibility; and were it possible, it would end in a distribution of wealth measured by mechanical work done. The navvy with strong muscles would accomplish in an hour what would require five for the man of cultured mind; he would work two hours a day and have all the remainder of his time for idleness. The man of refinement would be compelled to work ten, and would receive at the end the same necessaries and comforts as the navvy. Upon what principle the disagreeable offices would be allotted to workmen is hard to conceive.

Nor is this all that would result from pure Communism. Were it ever established, it would be fatal to the growth of civilisation and to the higher interests of the human race. The motive to make the effort to improve would be attacked at its very core. That impulse to exertion for the sake of the reward it brings, which is so deeply implanted in the human soul, and which has made the nations of the world what they are to-day, would be so weighted as to lose its force. Progress would be nipped in the bud, for progress rests on indus-

try and effort, and industry on the advantages it gathers up and the sense of the moral and material improvement it imparts. To act and make efforts under the impelling force of hope of a higher standard of life and well-being to be achieved is the most powerful, the only main force from which all personal and social advancement springs. A personal motive for exertion to every labourer, of whatever kind he be, is, by the law of man's being, the one necessary condition of human progress.

But Socialism—or, if the expression may be allowed, un-pure Communism—stands on quite other ground. It is entitled to make claims on behalf of any class of society to which respectful consideration is due. But this recognition is subject to one imperative condition. The construction of new organisations must be claimed on their merits, and their merits alone. All claims of absolute natural right are inadmissible, as non-existent. Every man is authorised to make comments and suggestions on his relations with his fellow-men, with whom he is grouped in a nation; but he is not empowered to demand anything for himself on the authority of his own consciousness. Such language as, I am a man, therefore I have a right to own a piece of land, is purely visionary. A man may explain and urge; but society alone is the sole arbiter of what is to be instituted. The life, whether of individuals or nations, abounds in imperfections and suffering; but it is also ever susceptible of improvement. Every class, as well as every single mind, may have ameliorations to suggest, carrying weight from special experience or other grounds. It would be as unjust as it would be

impolitic not to acknowledge that the Socialists often point to undeniable evils, and tender proposals whose aim must be admitted to be legitimate. They have the clearest right to urge their views; let their advice be calmly refuted or accepted.

For the most part, the proposals emanating from Socialistic quarters have been more political than economical. When eminent writers urge that the fruits of labour shall belong to the labourer alone, and work shall be imposed upon all—that the rich sluggard shall cease to exist,—that special taxes shall be placed on land—that land shall be the exclusive property of the State, and all rents paid into the Exchequer—that interest on money borrowed shall be forbidden—that there shall be no such thing as one's country, but that all shall be formed into one universal cosmopolitan community—that there shall be no masters and no wages, nothing but proprietors—that these proprietors shall be the whole community, who shall regulate the distribution of wealth upon their own ideas and shall appoint officers to judge who are the deserving and who are not, who shall receive more and who less—when such things are proposed in the name of incontestable principles, it is clear that new constructions of society, new modes of associated life, new positions of human beings towards one another, in a word new political revolutions, are demanded. Economical truth is not thought of here; its teaching is held not to deserve notice, much less refutation. If the new ideal organisations lead to a diminution of the general wealth of society, what matters it? The social gain, the raised mode of life for all, the personal dignity

thrown over every human being, will bring ample compensation.

Other proposals exhibit a totally different character. To demand that work shall be found by the State for all, that national workshops shall be established, and that profits shall be limited in amount by law, is to ask for pure confiscation.

Abandoning, then, the ground of abstract inalienable right, and taking our stand on the basis of facts, we find that history shows that nations have always consisted of rich and poor. Their relative numbers incessantly vary; but at all times there has ever been a richer and a poorer class. In the early days of national existence property has included a larger portion of the people; but population was small, the arts very backward, the products of industry simple in kind, comforts and enjoyments few and of inferior quality. There are communities now existing which exhibit this type. Often they live on the extreme margin of subsistence. When harvests fail, destitution and death ensue. Europe presents a different spectacle under the action of powerful causes, especially in these more modern times. It long ago emerged from the purely agricultural and pastoral state. Manufacturing industry sprang up, and its results were felt, and have told powerfully upon human desires. As comforts increased, that "progressive desire" which is the characteristic of men, as compared with animals, prompted greater efforts to obtain more. Capital was accumulated by saving; the means of setting more men to work were provided. Inventive genius applied itself to improve the processes of production, and to multiply and cheapen its results. Thus

in the end an enormously large population was enabled to exist with an immeasurably raised standard of living. No feature was more striking in this amazing progress than the wonderful power of machinery. This greatest of industrial forces, the gift of mind to mankind, may be said with truth to be the foundation of modern civilisation. Conceive steam suddenly to lose its power, and who can think of the consequences without shuddering? The extinction of steam would send millions of human beings out of existence—and yet the steam engine is an invention but of yesterday. Such has been the march of modern development. It has built up the colossal establishments and the dense populations of Manchester and Lyons, Liverpool and New York, Paris and London; but it has also showered down refined comforts over the dwellings of all classes of the people.

But the progress has brought out a tendency amongst industrial nations of the most marked character, and of the highest moment. The proportion which the labourers, who live by wages, bear to the rest of the population, is ever on the increase. Moreover, they are congregated together in denser masses. They are not dispersed in small groups like agricultural peasants. Hence they are becoming a more combined and united class, in closer sympathy with each other entertaining the same ideas and governed by the same feelings. They tend to adopt common action, and thereby they acquire social and political power towards their employers and towards the State. These facts impart incalculable importance to the question of wages. Economists have to deal with a body of doc-

trine on labour, systematic in theory and generating action of great importance to society.

In the production of wealth, two classes stand face to face towards each other, the employer and the labourers—the men who possess property called capital, and the men who derive their subsistence from working for others. Each stands in need of the other, both acquire wealth by the aid which each gives to the other. Without the services of these two classes, society would speedily relapse into barbarism. The employer gathers profit for his abstinence in accumulating capital, and his skill in applying it; the labourer receives wages as the reward of the efforts he has placed at the disposal of his employers. What wages are, Mr Danson has happily explained:—"When one man labours for another, under the direction of that other, the resulting payment is wages." The true practical position of the man who derives his subsistence from working for another, is that of a seller—he gives something in exchange for wages. He sells his labour, he sells the use of his hands and of his skill to another. He does not sell himself, but his service; he is hired to do a service, to perform work for another. The employer is a man who is in want of that particular article, that service, and buys it. No difference of nature, I conceive, can be assigned between the buying and selling of labour, and the buying and selling of any other commodity or service; the process is always the same in kind, though each article has its own particular incidents. The labourers are in a market; they offer their commodity, work—the use of their muscles and skill—for hire. Equally are the employers in a market; they seek that

commodity, or which is the same thing, that service, which the labourers offer to supply. In an ordinary purchase, the value of the article is called its price, in the case of labour it is called wages: but these are, at bottom, distinctions of name only. The essence of the position is that of exchange or sale, and the principle that governs it is the universal law of exchange, that of demand and supply. All the relations between the two classes of men are founded on this principle.

But this principle, that labour is a commodity offered for sale in a market, is subject to an essential condition —freedom of labour. Every consideration which calls for perfect freedom of trade can be urged with still greater force, when man and his command over his own action is the subject of exchanging. If goods are to be free—if their production and their sale are now acknowledged to have a natural claim and economical right to be exempt from all interference of external authority, how much stronger is this right in the case of every man's power to dispose of his own toil according to his own pleasure. History records a long series of unjust, impolitic, and often cruel, interferences with freedom of labour. Slavery, serfdom, feudal burdens, *corvées*, guilds with their restrictions, restraints of trade invented by law, attest the obstinacy with which arbitrary power has struggled to prevent men from being masters of their own persons. No plea can be advanced in behalf of such limitations on free sale, free liberty to work and earn, which is not a violation of justice.

The workman then has labour to sell—the use, that is, of his bodily and mental faculties—for what does

he exchange it? what does he receive? A portion of the goods made. They are sold for him by his employer and he obtains their value in money, and with that money he buys other articles in the shops. These are his real wages, the money are his nominal ones. The substantial reward for his efforts is the goods he buys with his wages; it was to procure these goods that he sold his labour. It is a vital matter to grasp firmly that the worth of wages is not money, but what the wages can buy. If the articles for sale in the shops are cheap, the labourer's real wages are large; if, on the contrary, they are dear, then with the same money, his wages will be low. In all the manifold questions surging about wages, it is of supreme importance to remember that wages are the goods purchased by the labourers, by means of the sale of some of those articles which he has produced.

And now arises a question, which has excited the keenest interest amongst writers on Political Economy: what is the extent of the fund which a nation can dispose of in the purchase of labour—that is, in wages? A vast amount of literature has been expended on the attempt to answer this question. Its history singularly illustrates the mistaken but persevering passion to reduce Political Economy to a strict science—to discover in it fixed laws, to obtain accurate and scientific formulas for prophesying the rate of wages. We shall on the contrary find here as elsewhere in Political Economy, not scientific forces, but tendencies, a multitude of divers causes influencing variable results. It is highly desirable to explore these causes, and their range. Practical rules will then be

reached to throw sufficient light on perplexed situations; but formulated law, endowed with the gift of prophecy through mathematical figures, will be looked for in vain.

This desire to ascertain with accuracy the amount of wages available for the purchase of labour, has led to a theory of wages, which has been widely appealed to in discussions with the labouring classes: the theory of a wage fund. It cannot be better stated than in the able words of Professor Francis A. Walker, of the United States.

"The doctrine is, in substance, as follows: There is at any time, for any country, a sum of wealth set apart for the payment of wages; this sum is a portion of the aggregate capital of the country. The ratio between the aggregate capital and the portion devoted to the payment of wages is not necessarily always the same. It may vary, from time to time, with the condition of industry and the habits of the people, but at any given time, the amount of the wage fund, under the conditions existing, is determined in the amount of capital. The wage fund may therefore be greater or less than at another time, but at the time taken, it is definite. The amount of it cannot be altered by force of law or of public opinion, or through sympathy, or compassion on the part of the employers, or as the result of appeals or efforts on the part of the working classes.

"The sum so destined to the payment of wages, is distributed by competition. If one obtains more, another must, for that very reason, obtain less, or be kept out of employment altogether; labourers are paid outof this sum and this alone. The whole of that sum

is distributed without loss, and the average amount received by each labourer is therefore precisely determined by the ratio existing between the wage fund and the number of labourers." *

Is there such a fund? Is there an amount of wages predetermined at a given moment, more than which the wage-receiving class cannot possibly divide amongst them, and which and no less, they cannot but obtain? To this question, a categorical answer must be given: there is no such wage fund predetermined in amount, and which, neither law, nor public opinion, nor combination, nor any other force can alter. No one can define it. We are only told that wages are a part of the aggregate capital of a country. This every one knows. It is said to be a fixed part; but how fixed, and how known to be unalterable, is left utterly unexplained. The asserters of a fixed wage fund are imperatively called upon to specify in definite terms, what portion of the productive capital of a country is marked off by a law, dominant at a given time, as wages; but none of them respond to the call. They give no definite answer to the question—what part? Their answers amount to no more than the tautological proposition, that the wages given are the wage fund. The wage fund becomes only an expression for the sum-total of all wages paid. To add up the wages paid by every employer, and to call them a wage fund, is to give no information; the point of the question is, why the figures added up are just such and can be no other? and on it we look in vain for a particle of definition. The wage fund proclaimed by those who hold the doc-

* "Wages"—138.

trine, is a body without a boundary; it acquires definite form and magnitude only, when all the wage items, actually given and received, are added up into one sum. It might be said with equal correctness, that there is a tool fund for every country. Add up every shilling paid for tools and machinery by every employer, the resulting figures give a tool fund of equal worth with a wage fund.

It might be said that Mr Mill has defined the wage fund and marked out its limits. He tells us that "Wages depend upon the proportion between the labouring population and circulating capital." If this expression means, that these are the two factors, and the two only which determine the rate of wages, the one mounting up as the other goes down, and *vice versa*, it must be held to assert that the circulating capital of a country constitutes the fund which it has to distribute in wages. If this is so, then the statement is entirely erroneous. It is certain that a considerable portion of the circulating capital of a people is not absorbed by wages. That capital, it is quite true, has to provide all that the labourers consume, their food, clothing, and other necessaries; but it procures also in addition, raw materials, and coal, and cartage, and repairs of machinery. Mr Mill has not drawn the line which is the boundary of the wage fund.

Experience testifies that it knows nothing of a wage fund of fixed and unalterable amount. Employers could declare with one voice that the amount of wages which they pay is often severely increased, not because the wealth produced is larger, nor because it sells at higher prices, but simply because in selling their labour

the labourers have combined to get more out of the buyers. If they were met with the reply, that if some of them were harassed by higher wages, others would necessarily, upon the fixed wage fund theory, have less to pay to their men—the universal answer might be that wages had gone up all round, that profits were lowered for everyone, that goods were not proportionally higher in price, that labourers were better off, and they themselves worse. They know as a stern reality, that they are constantly engaged in mortal strife against the assaults of wage-demanders. They could tell of their profits forcibly reduced by additions made to wages, till at last they have been driven to shut their mills and their mines in despair by the pressure brought upon them by labourers. Every trades union is built up on the principle, or as they would say, the fact, that labourers by acting in combination can exact higher wages from their employers. To the wage fund theorist, who assured them that they never acquired an additional shilling by such pressure, they would point, not without some ridicule, to the raised rates which they had so often and so triumphantly enforced. A fixed and unchangeable amount of wages capable of being paid is the last thing of which industrial and commercial life dreams.

The battle of life is fought on the very opposite ground, whatever science-making economists may proclaim. Employers know but too well that the profits which they expected to spend on themselves are often appropriated by force to the enjoyment of labourers. That is, the wage fund is enlarged at the expense of profit, for profit is only the residuum after wages have been paid, and that residuum may be inde-

finitely reduced by the theoretically impossible but practically realised enlargement of the wage fund. It may well happen that in a steady business both the employer and his workmen should consume unproductively, in their ordinary style of living, their respective shares of the profits without making any addition to capital by saving. It is perfectly legitimate to suppose that diverse causes may enable the workmen to increase their share to the diminution of the employer's enjoyments. He might still go on with the business, but the wage-fund, the sum expended in wages, will have become larger at the expense of the employer's comforts. It will have lost its fixed character. The wage fund of theory will have been proved to be a fiction.

To these considerations one more can be added, which by itself alone disproves the existence of a fixed fund for wages. What if a nation deliberately resolved to consume its capital in enjoyment? Seasons of excited prosperity of trade, when speculation sets in movement an excessive conversion of wealth into fixed capital, when mine after mine is wildly opened, factories and mills built on every side, or railways spread over the wilderness, are very familiar occurrences. At such times an eager demand springs up for labour, employers vehemently compete with each other in the search for workmen, and rapid and large additions are made to wages. But from what source do these augmented wages come? From an excessive destruction of wealth. The fund actually received by the whole body of labourers is greatly increased. They obtain more and spend more. Their collective wage fund is far larger, and the nation in the end is much poorer.

A very variable wage fund is plainly to be discerned here.

We conclude then that there is no fixed and unalterable fund for the purchase of the article called labour, any more than there is for any other article exposed for sale. We have seen that the labourers stand in a market offering their service for hire. In that market they meet buyers in search of that service. The performers of this service may be conveniently divided into two great subdivisions—those who give assistance in producing wealth, and those who aid in procuring the gratifications of consumption. The two classes are not separated by an impassable line from each other. The supply of the two services is in most cases derived from the same body. The domestic servant and the gamekeeper belong to the same general class of manual labourers as the artisan or the ploughman. The action of both classes influences the wages received by each. A large increase or diminution of domestic servants would produce a distinct effect on general wages.

The law of demand and supply governs all markets, but that law presents great and sometimes perplexing peculiarities in the market of labour. In the first place, what is the article sold and bought? The action of the labourer in producing. I omit in this place those labourers who are connected with consumption. When a man agrees to work for wages, he contracts, for the sake of a determinate reward, to place his strength and skill at the disposal of another man. It might seem at first sight that as this strength and skill are embodied in a man who needs subsistence in order to make use of them, and who has none which belongs to him, that

he has little choice but to accept the terms dictated by the hirer. Want of food might seem to exert a pressure which deprives him of all power of bargaining and of obtaining justice in the value assigned to his efforts. But God has not so placed men on earth. The man who possesses means of subsistence exceeding what he can himself consume is as eager to give them away as the other is to receive them. Without labourers riches perish, and in the end life, or at least civilised life also. Except in the savage state, the two classes are in urgent need of each other. Hence the market for labour is a true and necessary market. There are always buyers and sellers in it. The poverty of the labourer does not prevent him from having great market value for owners of wealth. The workman and the employer are necessities for each other. The circumstances of the day may, as in every other market, give the one the advantage over the other exchanger. Supply and demand may vary. The employers may be short of orders, and their desire for purchasing weaker. The pressure of the want of wealth may force the labourer to submit to a lower price; or trade may be exceptionally brisk, and it becomes the labourer's turn to enforce better terms. But such fluctuations do not alter the main fact of the situation. Employers require labourers and procure them, and labourers seek the means of living and obtain them.

The article purchased is labour, the action of the labourer, and the capital consideration is clearly the worth of the labour. But here a very remarkable peculiarity presents itself which is not found in ordinary commodities. Bodily strength and skill are required. These are qualities embodied in the physical man before

he proceeds to execute his contract. But there is a third which is contained in the manner of his action, and which has an immense effect on the quality of the article purchased. That element is will, temper of mind, a mental and moral force which governs all the work performed and determines to no small extent its value. Something similar is exhibited in a horse. There is the generous and eager horse, and there is the lazy and the shirking horse. There are means which often overcome this temper, but they are inapplicable to free men. But even in a horse, a shirking and lazy temper lowers his price. How to act upon the will is incomparably more difficult in the case of a man than in that of a horse. The laziness of an individual workman may be more easily dealt with. He is the last to be engaged and the first to be discharged. But the temper of able-bodied, well-trained and, if they choose, energetic workmen, associated together in great numbers, who deliberately resolve not to work well, gives a character to the labour market which belongs to none other. It corrupts the nature of the article bought. It introduces uncertainty into the purchase. The employer knows not what he is buying, and a worse and more mischievous feature in any purchase cannot easily be conceived. The hirer seeks labour which is efficient. He is sure of the strength and intelligence of the men hired, but their perverted will may injure the quality and quantity of their work, and may wrong him severely in the character of the article which he had a right to expect he was buying. This peculiarity of the labour market gives rise to events and dangers which will have to be considered later.

Another and most embarrassing peculiarity distinguishes this market of labour. The regulation of the supply presents exceptional difficulties. In the case of ordinary commodities, the supply adjusts itself easily to the expected demand. Production is carried on with a distinct reference to such a calculation. If an error has been committed, and the supply is greater than can be disposed of at the natural price, sellers accept a sacrifice, and the supply is carried away by increased demand at a lower price. The market is cleared and production makes a fresh start upon new computations. It is wholly otherwise with the market for labourers. The providing of the supply has but a remote connection with the state of the market and its demand. Marriages and births occur many years before the young labourers are qualified to be offered for hire. They may have been born under a state of industry and trade entirely different from that which they find when they offer themselves for employment. If they are in excess they cannot be permanently got rid of by diminution of price; depressed wages may generate formidable and distressing consequences. The lives of human beings may be at stake. The workhouses, the tables of out-door relief, the records of sickness and death, bear witness to the fearful effects which excess of supply can here create.

Further, the regulation of the supply falls upon the most uneducated as well as the largest class of the population, upon those who are least able to estimate beforehand the course which demand for labour is likely to take. Ordinary producers, men of high and cultivated intelligence, are guided by the probabilities of the immediate future, yet even they may fall into

grievous error, and a long commercial depression with over-stocked markets, low profits and shut up works may then be the inevitable punishment. On the other hand the working classes multiply marriages when trade is brisk; yet fluctuations of trade from countless causes may reduce demand, or even sweep it away altogether. The successful competition of foreign countries in what are called third markets might throw tens of thousands of English labourers out of employment, and ruin the future of innumerable young children lately added to the supply. The vaster and the more complicated the trade of a nation becomes, the more it embraces the whole globe, the greater are the uncertainties which overhang it, the more difficult is the adjustment of the supply of labour to demand, a supply which begins with infancy to a demand most hard to estimate for a distant future.

The problem of regulating the supply of labourers is further encumbered with a difficulty of the most formidable kind. That problem is closely connected with the fundamental fact of all animal life. All animals, and not man only, have the power of multiplying their numbers beyond the means of subsistence, and their tendency is to exert this power, and thereby to involve themselves in distressing consequences. It cannot be doubted that nature keeps the numbers of animals in harmony with her power of maintaining them by actual destruction of their excess. The locusts and the blighting flies appear in myriads at times, pass through a brief existence, and perish. Violent drought or violent rain are equally fatal to larger animals. The difficulty of procuring food for many of their young

is found insuperable. More are born than can be reared.

Man falls under this universal law precisely as all other animals. Mr Malthus drew the attention of the world to this cardinal truth in his famous "Essay on Population." He thereby rendered a most valuable service to humanity, and yet encountered in many quarters reproaches of the most virulent kind. He was charged with having brought the ordinances of the Creator into discredit. God never gave children, it was cried, without giving also the means of supporting them; to discourage marriage was to dishonour a divine institution and to compromise the happiness of mankind. Yet Mr Malthus had only proclaimed a fact as certain and as common-place as the fact that a man dropped in mid-ocean must infallibly sink and be drowned.

In the case of man, under the expression subsistence, must be included, besides food, shelter, resource against disease, and other necessaries for living. Malthus showed that in the United States population, in certain parts, doubled itself in twenty-five years; and then he framed a definite law which declared that food grew in arithmetical, and population, in respect of its tendency, in geometrical proportion. At such a rate of increase, human beings might be accumulated in a brief time beyond the ability of the earth to give them standing room. Some forces manifestly interfere with this power of human beings to multiply. Nature opposes to it positive, or actual checks; man himself others called prevention. Famines, fevers, deaths of children from want and misery, absence of the means of fighting disease, potato-rots, and countless other physical forces

fight against and overcome the capacity to increase, and beat down the population into correspondence with the physical conditions of the world. Man himself takes part in the struggle. Ancient nations exposed unneeded infants on the mountain side; eastern nations drop them into lakes; and who can tell how many are the contrivances by which even in England superfluous and troublesome children are got rid of? Other resources derived from man's moral nature are brought to bear on the battle against excess of population. The tendency to increase faster than the means of subsistence is discerned, and man does what it is beyond the ability of animals to do. He postpones marriage for a time, until the prospect of being able to support a family fairly dawns upon his mind. This tendency gathers great strength in proportion as young men and women belong to classes that are well off for comfort and social position; fathers counsel prudence, and refuse to help a reckless marriage. In some countries, as in France, the whole population expands slowly, if at all—a fact of enormous economical value to that thriftiest of nations, however it may be explained. In other lands the law interferes with marriage by positive regulations; it forbids marriage until a certain amount of property is exhibited. Habit in others appoints a late age for marriage.

On the other hand legislation may produce mischievous effects on the numbers, and consequently on the well-being of a population. The Poor Law of former days furnishes a striking instance of this misdirected but injurious interference of the law. The Poor Law distributed to every man who was unable to maintain

himself and his family rations of bread according to the numbers of his household. Mr Shadwell holds that objections can be raised against this enactment only on moral, but not upon economic grounds. He says truly that the Poor Law does nothing to increase or diminish the supply of food; but when he adds that therefore it can have no effect upon population, he misconceives the action of the Poor Law. It did not increase the quantity of food, that is certain; but it did very really increase the number of bread-eaters, and thereby diminished the quantity of bread available per head to the population. The very fact that the bread was not increased, and yet that the augmented population managed to live, proved irresistibly that the general standard of living must have been lowered. The quantity of food distributed to the remainder of the population must have been smaller by what the mouths called into being by the law consumed. Mr Shadwell does not deny that the preventive force which diminishes imprudent marriages places the population on a better footing as to food and comfort; but what did the old Poor Law do? It told a great number of men—if you marry young, be not uneasy about the number of children you may have. They shall all be fed by the parish; a tax shall be imposed on the stock of food in the country for their maintenance. No wonder if we learn that, under such a law, the land of a whole parish went out of cultivation; the farmers could not support the charge of maintaining alive the numbers imposed upon them by the Poor Law. The opposite cause necessarily produced the opposite effect. Prudence in marrying raises the standard of

living; imprudence, not least when recommended by law, depresses it. There were more to support, and no additional food. The result was in the highest degree an economical one.

The effect which such a poor law produced on wages was necessarily very great. Had it remained in force, the improvement which, since its alteration, has taken place in agricultural wages would scarcely have occurred. To relieve the suppliers of labour, already of themselves too prone to be thoughtless, from the consequences of an excess of supply, was to ruin the market, to depreciate the value of the article sold, and to rear up all over the land multitudes of human beings on a low level of existence. The example of Ireland taught the world to what misery a people would be content to descend that was reckless in the multiplication of its numbers. The loss of a million-and-a-half of its inhabitants out of eight by death and emigration was the fearful penalty which Ireland had to pay for her neglect of the most fundamental law of human nature, the terrible cost at which she adjusted the supply of labourers to the demand.

Against this constant tendency of human beings to over-multiplication of their numbers there is one available resource which can, and often does, exercise great force in counteracting the danger. A determinate standard of living, firmly established upon long habit, is capable of producing a similar effect on the mass of a population to that which is witnessed in the well-to-do classes. It creates a certain amount of reluctance to contract marriage as likely to diminish the comforts to which the parties to it have been accustomed. When the

perception dawns on the minds of the labouring classes that trade tends to become permanently slacker, that their numbers are in excess, and that wages are likely to reach a lower level, many a young man hesitates to enter on a state which can scarcely fail to lower his manner of living. The sense that he has something to lose is awakened, and exerts power over his feelings. He refrains from contributing to keep up a supply of labourers which must entail fewer enjoyments in the future. The opposite result very commonly follows upon the opposite condition of a standard of life so low as to be scarcely able to be made worse. It was strikingly seen in the state of Ireland before the appearance of the potato-rot. The population had become reckless. Their dwellings were so habitually wretched, their food so low, and for several weeks in the year so precarious, the presence of disease, especially fever, so constant, their lives so mixed up, even in their own dwellings, with animals, that the feeling that there was something to lose by marriage was extinguished. They married and multiplied without thought; their supply of food bordered on the lowest margin of subsistence. When the visitation of disease rendered trust in the potato, as the staple of food, impossible, a new state of things came into being. Upwards of a million of the population had emigrated or perished. Bread necessarily took the place of the inferior root; a higher standard of living was established, and an excess of numbers disappeared. Since these days Ireland has ceased to exhibit the spectacle of a reckless multiplication of the numbers of her people.

CHAPTER VII.

WAGES.

II.

THE next point for consideration is the fund from which wages are derived. What is it that enables an employer to purchase the services of labourers in production? That fund is capital; and capital, we have seen, is that portion of the existing stock of machinery and commodities which is intentionally applied to the creation of fresh wealth. This proposition Professor Walker, in his able work on Wages, denies. He rejects the assumption that wages are paid out of capital, the saved results of the industry of the past. "On the contrary, he holds that in a philosophical view of the subject wages are paid out of the product of present industry." But he refutes his own view by admitting that in almost all cases wages are advanced out of capital. The cases are indeed few in which the fruits of the labour are so rapidly gathered that they actually pay the wages of the labourer. A fisherman may pay a sailor for the day's work by the sale of the fish as soon as the boat reaches the shore. But such events are rare and unimportant. The farmer's case is that of most industries. He must wait a year before he can replace out of the harvest the capital consumed in feeding his labourers

and his horses. The building of a steamship may take two years before she can be sold. A bad harvest may strip the farmer of a large portion of his capital; the ship may fetch only a price much smaller than what she cost to build. The cost of production is first provided out of the consumption of pre-existing capital.

But there is, on the other hand, a real and essential connection between what industry at work produces and wages. The employer must recover from new wealth made what he had destroyed in keeping up the labour or he will give up the business. He will cease to hire labourers, and wages will disappear. He may for a time go on producing at a loss, relying, like the farmer, on an average of years; but if the business and its distribution of wages are to continue, the vital condition that his capital shall be replaced with a reward for himself, must be fulfilled. In this sense wages clearly depend on the future results of industry.

From this cardinal fact, that wages are paid out of capital, comes forth the fundamental principle that the sellers of labour have the strongest interest that the means of purchasing what they have to sell should be as large as possible. The greater the number of buyers of labour, the more plentiful the means which they have of buying, the better price, the higher wages will the sellers obtain. Everything which makes the employer eager to give wages is good for the workman. Much the largest portion of existing capital is spent in wages; that is the labourers eat, drink, and consume the greatest part of the stock of wealth in the country. The saying, attributed to Mr Cobden, rightly declares that when two employers are seeking one man

wages rise; and the thing which creates the two employers is the existence of increased capital. Every act or policy, therefore, which has the effect of diminishing capital already in existence or of preventing its increase is obviously injurious to the interest of those who live by wages, and if deliberately designed to produce that effect is suicidal irrationality.

Another consideration carries great weight in this matter, and indeed in all the relations between labour and capital, and that is the manner in which capital is created. Except what nature gives as it were to start with, capital is the result of an act of the human will. It is derived from wealth, from commodities already produced, which their owner deliberately resolves not to consume in luxurious enjoyment, but to apply as instruments to the creation of fresh wealth. He saves this wealth by abstaining from the increase of his gratifications, and this is a personal act. It proceeds from a clear motive. The saver wishes to become richer,—to be better off. He makes a sacrifice for the sake of the ulterior object, which he prefers. Obviously in proportion to the strength of the desire will be the amount of the saving; and that desire will necessarily be influenced by the success it can achieve in obtaining the end desired, increase of fortune.

If profits are large, and the opportunities for extending business multiply, the tendency to save gathers strength, and capital rapidly accumulates. But if profits are low and are likely to become lower still, the effort to save is weakened, and the feeling is apt to arise that it is not worth while to lessen present enjoyment for the sake of a small increase of wealth. What policy,

then, can be more mischievous for the earners of wages than to discourage by direct hostility the saving of capital? They act directly on the feeling and motive to save by proclaiming the capitalist to be the enemy of the labourer. Yet it is by capital that they live. They are sellers of labour, and it is capital alone which buys it. They have no stronger interest than that the buyers of the article from which they obtain subsistence should be many and full of means. To dishearten them and to turn them away from the labour market is the most ruinous of proceedings. If the capital of a nation does not increase, its state must, at the best, be stationary. The labourers cannot raise either their position or their numbers. The desire to save may still survive, but the capital won, and the commodities to give to labourers, will be sent to foreign lands in search of better profit. The mistaken ideas of many unionists may easily drive English buyers of foreign labour to distant countries. They will send out English wealth—goods, be it remembered, not money—to be invested in foreign industry. They will reap a reasonable interest; but the English sellers of labour will have lost buyers and their wealth.

We now reach an element of supreme importance, the nature and quality of the article bought with wages. In every market, and in every exchange, the two fundamental questions always are, what is the kind of thing which is bought, its nature and character; and secondly, how much ought to be given for it? What is its value? The article which an employer intends to purchase with wages is efficient labour, that is, so far as depends on the labourer himself. The expression, efficiency of

labour, has a much wider meaning than the goodness of the work performed by the labourer, but this will come into consideration later. The man who engages to pay wages to another in return for labour, proceeds on the supposition that he will work well; and as Mr William Denny justly observes in his excellent pamphlet on "The Worth of Wages," "round this turns the whole question of our manufacturing prosperity." The employer hires the use of the faculties of mind and body of the labourer,—his bodily strength, his intelligence and skill, and also a particular manner of using them. This is a capital point in the quality of the article purchased; for on the manner of his work the value of the labourer to the man who contracts to give him wages depends. He is a purchaser of good work, and good work turns on the manner of working.

It follows from these facts that moral qualities are understood to be bought in engaging a labourer; care, diligence, honesty of purpose, self-respect, good will, and, what Professor Walker well calls, hopefulness in labour. These qualities are as intentionally purchased in hiring a labourer as beauty of colour is in a silk dress. The presence or absence of these qualities makes the work given in exchange for wages good or indifferent. The goodness and amount of the work performed constitute the worth of wages; and if wages do not obtain their worth, do not receive an equivalent for the money given, the work will at last stop altogether and wages will cease. Happy would it be for the working classes if they grasped the vital truth that labour is bought solely for the sake of what it produces, and that if the man who purchases it does not receive

an amount of good work equal in value to what it cost, he will disappear from the labour market, and the workshop will be closed. This is a truism, no doubt: but truisms are the main-springs of human life and of Political Economy, and are the very things most apt to be forgotten.

The market-value of labour, the quantity of money which an employer ought to give and a labourer to receive, is a problem of supreme interest for every country, but it is also one which is incapable of being pre-determined by science. In the labour, as in every other market, there are endless causes which act on the settlement of the price ultimately reached. Price is fixed experimentally by trial. Each party to the exchange of labour for wages has a desire to satisfy and an effort to make. Each tries to make the satisfaction as large and the effort as small as may be; each avails himself of the circumstances of the market at the time to effect this double purpose. For the purchaser the capital point is the value of the article he buys with wages, the worth of the labour purchased compared with its cost. But it is very important to distinguish carefully between the cost of labour and the rate of wages paid. High wages may easily co-exist with a low cost of labour and very cheap production. The highest paid workman may be, indeed generally is, the cheapest of labourers. Cost of labour is measured by the value of its product; it is high or low according as the results, the work, procured from it possess greater or smaller value. Of this fact the ordinary colonial state furnishes an excellent illustration. In Australia wages are very high, the selling price of the crop extremely small; yet the cost of

labour to the farmer is very light, because the virgin powers of the soil enable him to dispense with many expenses which burden the English farmer in addition to what he spends on labour. A little labour in the colony, though it wins but a scanty yield of low-priced corn, nevertheless produces a crop which when sold fetches a sum of money which is large compared with what has been spent on wages.

In economical writings the general principle laid down as regulating the cost of labour is its efficiency, that is, the quantity and quality of the work given in exchange for the wages; but this does not quite exhaust the whole of the matter. The selling price of the goods produced by the labour must also be taken into account. A body of labourers engaged in a particular industry may be all energetic and may all produce a large amount of the best work during the day, and yet the cost of labour may become too heavy for the continuance of the business. From causes quite external to the manufacture the goods may command only a price so low as not to repay the cost. Just as the Australian crop, though sold at a very low price, nevertheless yields very high wages for the labourers as well as a handsome profit for the farmer, so on the contrary, the goods produced by a thoroughly efficient body of workmen may realise so small a sum on sale as to annihilate wages altogether. However, it remains a very important truth that as between workman and workman the efficiency of the labour largely affects the expense of it to the giver of wages as well as the cost of production of the commodities produced. The sluggish, weak-bodied, unintelligent workman is incom-

parably the dearest. His wages cannot be easily lowered to the standard of the worth of his efforts. Were piece-work universally applicable, and pay measured out strictly by service done, a partial remedy might be found; but even then there would be a loss on the result accomplished by the machinery and the fixed capital engaged in the business. The wages paid by the piece might be strictly equal to the value of the work made, but there would be fewer goods to meet the same charges for working the engines and machines.

The good workman, even at an exceptionally high wage, is the man first chosen by an employer. Of his comparative cheapness, Mr Brassey gives some striking illustrations in the construction of the Basingstoke Railway Station.

"The contract for the Paris and Rouen line included some difficult works. At one time there were five hundred Englishmen living in the village of Rollebois, most of whom were employed in the adjacent tunnel. Although these English navvies earned 5s. a day, whilst the Frenchmen employed received only 2s. 6d. a day, yet it was found on comparing the cost of two adjacent cuttings in precisely similar circumstances that the excavation was at a lower cost per cubic yard by the English navvies than by the French labourers."

Again, "It has been many times stated in the course of this work that from superior skill or greater energy the more highly-paid workman will in many, perhaps in most, cases turn out a greater amount of work in proportion to the wages he receives. An opportunity occurred some years ago, during the construction of the refreshment room at Basingstoke for testing this pro-

blem with great accuracy. On one side of the station a London bricklayer was employed at 5s. 6d. a day and on the other two country bricklayers at 3s. 6d. a day. It was found, by measuring the quantity of work performed without the knowledge of the men employed, that the one London bricklayer laid, without undue exertion, more bricks in a day than his two less skilful country fellow-labourers." *

The variations in the efficiency of labour are as striking amongst nations as amongst individuals. Macaulay was wont to declaim on the hard toil and low wages to which the Irish labourer was subjected in many countries. "In cotton spinning we find from the best international statistics available that the number of spindles attended by a single operative to-day in England ranges from two to four times the corresponding number on the continent. The statistics of the iron industry of France show that on the average forty-two men are employed to do the same work in smelting pig-iron as is done by twenty-five men at the Clarence factory on the Tees." † References to the differences in money wages are not equally conclusive of inferior efficiency; for excess of numbers, cheapness of food, and other causes, may have led to a lower money wage. But in the above instances, superiority of personal power is shewn in some men compared with others, and experience has abundantly proved how much more is got in return for the money given out of the energetic workman. And if this is so with equally willing but inferior labourers, how much greater yet is the addition to the cost of labour, when temper or bad will or mistaken policy

* "Work and Wages."

† "Wages Question."—44

acts on the feeling of the working-classes in the application of their labour, and the fulfilment of their contract.

One inference becomes very clear. The day's labour is no measure of the work accomplished,—is not everywhere the same thing. Even where the industry is the same, and the moral qualities are not supposed to differ, the length of the day's work furnishes no common measure of the labour given. "It would be a great mistake," writes Mr Bagehot, "to put down as equal the day's hire of a Dorsetshire and that of a Lincolnshire labourer. It would be like having a general price for steam engines, not specifying the horse-power."

The employer has the initiative; he comes to the market in search of labourers. With what strength of demand does he appear? Here it is precisely that the character of modern commerce harasses the labour market with fluctuations of the most distressing kind. There are countries in which the stationary state has prevailed for ages. The round of annual existence varies little. Population is unaltered; equally so industry. In such countries the amount of capital and the rate of wages may continue unaltered for long periods of time. But that is not the condition of the world at the present day. Movement abounds on every side. Most countries are being rapidly developed, production multiplies, and the wealth now distributed in wages and profits is enormous. International trade daily receives fresh development; the steamboat and the railway carry goods into every region, and bring back products which, without them, never would have come into existence. But international trade is exposed to immense fluctuations. If England is the supplier of

a particular commodity to all the world, she must share the fortunes of all her customers. If war, or famine, or bad seasons, or other causes diminish their power of buying, the reaction on her manufacturers becomes very grave indeed. How is the proper reward, the right rate of wages, to be discovered for workmen?

The monotonous routine of agricultural countries, with unchanging production and unaltering wages, is here inapplicable. Hirers of labour offer different wages at different times; how are the sellers to learn the true state of the market, and the wages which it prescribes? At a fair the stock of goods or cattle is visible to every eye; some conjecture can be formed of the proportion of demand to supply. But in the broad commerce of such a nation as England, orders come to producers from distant regions, and the purchasers of labour do not show to the sellers, to the workmen, the orders recorded in their books. Bargaining thus becomes the sole process by which the right value of the labourer's services can be ascertained. When business is prosperous and lively, the bargaining is comparatively easy; both parties to the hiring are in better humour. The masters are not unwilling to give an advance of wages, and the labourer who has won the advance does not press his employer with demands that he is unable to grant. But the situation is very different when the market droops, and notices of reduction of wages are issued. The workmen are told by the masters that demand has fallen away in distant markets—that foreign buyers are poorer and fewer—that from various causes they have produced less wealth to give in exchange for English goods—that

profits consequently have become smaller, as the employers encounter weaker prices abroad. It is only too natural that men unacquainted with the facts, and unable to test by them the accuracy of such language, should regard it with suspicion. Can such a revolution in demand and price be real? May it not be that makers are combining to make an attack on wages? Lower wages must diminish their comforts and perhaps bring them to distress: that loss is certain. May it not be the wiser course to hazard a little suffering for the chance of winning better terms?

On the other hand the embarrassments which the diminished purchasing power of foreign customers creates do not fall on one side only. Not only may profits be seriously lessened, but may be even converted into losses. At such times a heavy trouble is apt to fall on the owners of great producing establishments. They have opened out large mines or erected costly machinery which would be greatly injured by the stoppage of the works. Or a suspension of their business might drive away their workpeople, especially the superior hands, into other factories or to different localities. When trade revives, their business might suffer heavily from the want of competent workmen. Under such circumstances many an employer is driven by such feelings to continue his operations at a loss, and to give to the labourers wages which they do not earn. He hopes for better days, but they may be long in coming. Meanwhile his people are living on his capital, are consuming his property, which the fruits of their labour do not replace. Such sacrifices imposed on huge establishments were rare in the narrower trade of a

century ago, but they are very common now. Demand presented then fewer difficulties to be solved.

Whilst these fluctuations were harassing manufacturing profits and wages, till recently agricultural labourers stood on a different footing. A long series of ages had bound them closely to the particular spot in which they had been born. The feudal system and various kinds of serfdom had encroached upon their freedom. They were not free men, free to dispose of themselves at their pleasure. Hence they were not sellers of their own labour in a really open market. They were under many restraints from making their own bargains with their employers. In England they had gradually become emancipated from these restrictions; yet even in this country unwise and unthoughtful legislation had mischievously interfered with their liberty, to their great injury as labourers. A Poor Law which had been enacted for their relief was so constructed as to bring on them grievous harm. It secured them maintenance when out of work, but at a particular spot, in their own parish. The principle of a poor law need not be discussed in this place, but this special enactment practically deprived them of freedom of motion, and of the natural and fitting market for the sale of their labour. A labourer who had wandered into another district, and had through want of success in procuring employment become chargeable on the poor-rate, was immediately sent back to his own parish. That was the body which was bound to support him. He was thus planted down in a small narrow locality. He had little spirit or means to migrate on his own account. If he did so, he was in imminent peril of being driven back to his

place of settlement. He learned to feel that his life was sentenced to be spent in his parish, and he comforted himself with the feeling that there he possessed out-door relief with a dole of bread for every child born to him, and ultimately the workhouse in the background for old age. Under such circumstances his wages underwent little change. Whether the farmers were prosperous or the reverse, the labourers carried away home a wage which was settled on no market principle, but was rather a maintenance distributed to a dependant. By the substitution of a large union for a small parish as the basis of relief, thus enlarging the field in which the labourer may work without danger of removal, by the diminution of out-door relief and a more direct appeal to a man's own efforts with a broader sphere of action—by the railway and cheapness of locomotion, by the rapid increase of the demand for labourers in the manufacturing towns, by these and other causes the position of the agricultural labourer has been radically changed. He migrates freely over the whole country. He can offer his services in many markets. He earns better wages and tempts others at home to follow his example. The labourers are fewer in the parish, and their dependence on the farmers has been largely diminished. The farmers have now to compete for the labour of good men by the offer of higher wages, and those wages are earned by a marked improvement in the quality of agricultural labour. The agricultural labourer has now largely acquired the general position of workmen selling their labour in wide markets.

The question now presents itself, What security have the sellers of labour that they obtain the price for it

which is just and fair? Wages are a portion of the produce of labour, and when labour is very productive the labourer possesses in that fact a force which is felt by the employer. When trade is brisk and demand for goods active and prices rule high, the employer comes under very powerful motives for yielding to increased terms demanded by the workmen in bargaining for wages. The more productive the labour and the larger the sums realised on the sale of its products, the more eager is the capitalist to engage workmen on improved wages. Still, even under such circumstances, the labourer may doubt whether profits would not admit of a still larger reward for himself. The master's share of the goods may still be excessive and be capable of diminution. Still stronger would be the doubt when the masters proclaim that profits are sinking, that sales and prices languish; may it not be that they have been spoiled by excessive profits, and think only of what is quite natural and proper, and will not hear of diminution?

The force which battles against the purchasers of labour and furnishes the workmen with a powerful guarantee for the reasonableness of the wages paid is the competition of masters with one another. It is excellently described by Mr Denny. "The master is at struggle and real fight with every other employer in his own country and trade. And this competition between employer and employer has done more for the success of this country than any other force or active struggle in it. The Clyde has fought with the Tyne and the Mersey, and on the Clyde every master has contended with every other for the work to be done. So powerful

has this contest been that with all the advances in wages and all the obstacles the crotchets of our workmen have thrown in the way, the price of sailing ships has not perceptibly advanced in this generation. This free competition of master against master has been the secret of this country's advance as a manufacturing nation." This is the language of practical experience and is confirmed on every side. The modern world, most of all England, is incessantly accumulating capital. Not to employ it is to lose it. In spite of the tidal fluctuations of trade, the means of investing capital, of applying it to production, are growing with a rapidity unexampled in the history of mankind. The spread of comfort and riches has been incalculable, and riches are only another word for things made by labour. The growth of manufacturing towns and populations has been marvellous. In every corner of the land people are saving, are investing (not money—be it never forgotten—money is only a machine for transferring ownership), goods rescued from enjoyment, in opening new mines, building fresh factories, constructing fleets of merchant ships, scattering commodities over the planet. Fortunes are made everywhere and brought to England, and fortunes are nothing but fresh savings of commodities by turning them into capital. Now it cannot be too strongly impressed on our working classes that every one of these operations is the result of capital, that capital is useless without labour, and consequently that every fortune made, every profit accumulated and not wasted on pure luxury, is an eager demander of labour, and searches about for workmen to create incomes and further profits. Without labour

there would soon be no income for anyone, for incomes are nothing but things made.

Capital cannot do otherwise than hunt up labour. It exists for no other purpose whatever. Under such universal pressure capital is driven to compete with capital for the possession of labourers. Every capitalist burns with desire to find a business which shall yield him returns, be he land or mill owner, or lender upon interest, or anything else whatever. Such are the habits of modern life, and so vast are the spaces on the earth which are yet untilled, so large the countries whose powers of yielding wealth are in an infancy of development, that these habits will last for ages. A time indeed may come, a time that Mr Mill was fond of speaking of, when the earth will be filled, and every vacant space cultivated, and the supply of food incapable of further increase. When mankind shall have reached that stage, the competition between employers to procure labour will grow feeble, saving will lose its motive, and either population must contract itself or wages will dwindle down to the minimum of subsistence. But that period is too remote for the Political Economist of our day, and of centuries to come. We must deal with the facts that surround us. One result of these facts, of these movements of capital in search for labour, is that in England alone the annual payment of wages has been estimated at 400 millions of pounds sterling. Wages have risen during recent years in all branches of industry, and barring occasional fluctuations will rise still more.

But it may be objected that this statement omits to take into account an adverse force which acts very pre-

judicially on the demand for labour to the consequent injury of wages. The tendency to substitute machinery for work of hand, is, it is argued, the distinguishing characteristic of modern industry, and gathers strength every day; and that means fewer men wanted for the same work done. But the work done is not the same; it is incomparably larger; and in that fact lies the answer to the objection. The marvels of machinery, it is true, are greater than what imagination could have conceived. Listen to the words of Professor Leone Levi in his admirable book on "Work and Pay." "A woman habituated to knit can make eighty stitches a minute; by the use of the circular loom, she can now make four hundred thousand stitches a minute, showing an increase of six thousand times the quantity. To make by hand all the yarn spun in one year, by the use of the self-acting mule, carrying one thousand spindles, viz., a thousand threads acting all at one time, would require one hundred million millions of men. To make a shirt the hand requires at least fourteen hours; by the sewing machine less than two hours. This is the age of machines!" And what are their effects? They enormously reduce the cost of labour for making the article. The same labour, purchased by the employer, yields an incredibly greater quantity of produce, goods are cheapened to an extent often astonishing. But who wants all this gigantic supply of goods? who will buy them? Millions of people, where formerly hundreds could not have afforded the price. But with what do they buy them? Each buys the cheapened goods of the other man with his own cheapened goods. Thousands of millions of matches are bought, because hooks and eyes, and

endless other articles are made infinitely cheap. The range of buyers widens from the few who could have purchased at the high prices of labour without machinery to the multitudes who come in to buy at the insignificant cost.

But what are the effects on population? Spindles and sewing machines and steam engines scattering halfpenny papers and steel pens by the million over the land do not feed men; how can such inventions enable a larger number of bread-devouring mortals to keep themselves alive? On the contrary, they seem designed as if to dispense with workmen, requiring only a few machine-makers, and sending away the remainder without wage or work to do in the world. What answer do facts give us? Listen again to Professor Leone Levi, "One hundred years ago Manchester had only 1600 inhabitants, now with Salford she has 500,000. Three hundred years ago Liverpool was only a fishing hamlet, now she has 527,000. Whilst Westmoreland, a purely agricultural county, has 7·71 acres to one person, Lancashire has only ·43 acres to one person, less than half an acre. In 1861 the town population of England was in the proportion of 24 per cent. of the whole. In 1871 the town population had increased to such an extent that it constituted 56 per cent. of the whole." Here we see the swollen population, it is a real fact, indisputable. The machines did not make food; how came the people to grow in such numbers? Machinery is the answer; machinery instead of dispensing with men and labour, has called forth and fed millions more. The land of England has not done the work. It yields more, indeed; but still vastly less than

the quantity required. Nor has the increase come in any important degree from the use of agricultural machines. Draining, rotation of crops, and manure, can claim the major part of the enlarged produce of English agriculture. It is the machinery of Manchester and Birmingham, of Bradford and Glasgow, which has provided subsistence for this doubled population. Their products are so cheap that they are bought in huge quantities all over the globe; and they are bought with food grown in foreign lands. Every American or Russian peasant who buys English cloth sends back to England a small portion of corn or meat; the aggregate of these little purchases, these little exchanges, brings bread or meat, or tea or sugar to the multitudinous homes of English artizans. The process is so productive, so stimulating to energy, so awakening of the desire to become better off, that not only is the standard of living improved for the whole population, but a multitude of additional producers are called into existence, and find wages eagerly offered for their labour. Hosts of men are willing to work on fields in distant lands, because they can with the surplus corn, above what is required for their own wants, obtain from England and other manufacturing countries in abundance those comforts and enjoyments which are demanded by civilised life. Here too machinery renders invaluable service in the transport of goods; but for the gifts of the steam engine and the railway, much of this grand contribution to the happiness of mankind could not have been realised.

But what are we to say of the effect on wages of this extension of machinery? That an immense increase of the aggregate wages distributed has been established by machinery is certain. The numbers of the population

demonstrate this fact. That the introduction of machinery may be injurious for a time to a particular class of labourers cannot be denied; they may even, though this seldom occurs, be thrown out of occupation altogether. But this is only one of the incidents inherent in the social, and especially in the industrial life of mankind. Many causes besides the invention of machines—such as the failure of raw material, the unexpected invasion of foreign competitors, change of tastes and habits—may cause a long continued demand for particular labour to cease. Submission becomes an unavoidable necessity. But the introduction of machinery has one peculiarity which asserts itself in almost every case; it bestows in the long run compensation more than ample. When railways made their appearance, loud was the outcry over the ruin which they would bring on many of the industries of the country. The carrying and travelling establishments of the nation would be reduced to poverty; the hotels on the great roads would be deserted, post-boys, ostlers, breeders of horses, and makers of coaches ruined, the broad wheel waggoner and his teams banished, and suffering scattered amongst the many labourers connected with these industries. And so it happened to not a few; yet who would plead that on that ground railways should not have been permitted to exist, or would deny that they have been amongst the greatest creators of wealth known to civilisation? who would refuse to own that they have given employment, manifold times greater, to the very classes, if not individuals, engaged in those occupations on which ruin was to fall? They paid off the National Debt years ago, as was pointed out with great acuteness by Robert

Stephenson; they had provided England with a clear additional income of wealth, of property equal in value to the twenty-eight millions of annuities which are the National Debt of this country. One has but to cast one's eyes around to discern higher wages in every quarter than prevailed half a century ago, not only amongst the agricultural labourers, who encounter the energetic competition of foreign countries in the growth of their particular products, but also in every branch of employment. Machinery is not the enemy of the labourer, but his abiding and enriching friend.

Let us now turn to the other side—the supply in the labour market. As in every market the quantity and quality offered for sale are the vital points in supply. We have spoken of quality: labour given with good will and self-respect, an honest desire to do good work. Skill and intelligence we have seen, are the main elements of quality. A larger production of wealth is thus effected, there is more to divide between master and man and the things made sell at better prices. The employer can afford to allot a larger sum to wages and yet not injure the residuum of profit for himself. There is no law of production more certain than that inferior goods are the dearest. England at the present hour is learning the reality of this truth. Some of the industries of the country have flooded foreign markets with goods which are showy and look well, but wear badly; thus in many markets English wares have been discredited. Buyers have discovered that these pleasant looking goods are very expensive, and they have betaken themselves to the producers and merchants of other nations. The same selfish and blundering policy, we

shall see, has generated the same mischievous results in the market for the hiring of labourers.

2. A second element of the supply must be provided by the purchaser of labour,—the supply of tools. In many trades the labourers bring their tools with them: the gardener his spade and barrow, the mason his trowel. To that extent the labourer is a capitalist, and the use of his capital, as well as its wear and tear, must be paid for. In the terms on which such labourers are engaged, remuneration for this capital is necessarily, if not expressly included in the bargaining for wages.

3. Supply presents a third element which exercises a powerful influence over wages,—the article actually supplied varies widely in kind. There is as broad a difference in the nature and value of the labour given, even by hard-working and honest labourers, as between a cotton and a silk dress. In the same employment, the dull and the quick-witted man furnish labour of very diverse value; if they receive the same wage, the intelligent man will be the first to be engaged, the last to be discharged. He will obtain a higher reward than the average of the class to which he belongs: he will be made a foreman, or become the mate in a merchant ship. What the wages are worth to the giver, what he obtains in return for them, must, in the long run, be the principle which governs their quantity. The contrast is more striking when different trades are compared. The wages of the highly-educated and skilful watch-maker far exceed those of the agricultural labourer; the puddler receives more on Saturday evening than the common miner. Where education, long-training, and knowledge are acquired, their cost must be repaid,

or men with these qualities will not be supplied. Some writers have contended that the expenses of education do not enter into account on the day of bargaining. The men only, just as they are, are thought of and dealt with at the time of hiring. In strictness this principle holds good of every purchase, of every exchange. On the day of sale, goods fetch the price which the state of the market establishes; long calculations and regrets as to what the horse cost to rear will not persuade the buyer to give more for him than his market value. Nevertheless the other principle, that education, training, in a word cost of production, must be repaid, remains true and is the real ruler of the market. If parents found that the training, so heavy for them, given to their children is not compensated by higher remuneration, they would not encounter the expense of the education. If the skilled labourers are supplied permanently, it can only be because their cost is repaid.

4. There remains a fourth element in the supply of labourers, and it is the most important, the most difficult to regulate, the most influential over wages, and the most powerful over the happiness or misery of nations: the number of the labourers who must of necessity offer themselves for hiring. Supply varies in reference to demand in all markets; the irregularity is redressed by a process, which in other markets except that of labour, may involve loss and suffering, but still is comparatively rapid and easy. But the regulation of the supply of labour encounters two difficulties of the most peculiar and formidable kind. First, the labourer is supplied long before he can be brought to market he is

brought into the world many years before he can work. During this long period he must be maintained out of the wages of the supplier, and wages, no doubt, do so provide subsistence for the families of labourers, who live to grow up and to earn their own living for themselves. But what, if in the meanwhile their parents themselves become an excess of supply from one of the many causes which may diminish the demand for labour? The grown-up men may not find employers except on very reduced wages; it will be hard then to maintain the children, who will become an additional supply in actual existence, preparing for a market already overloaded. Excess of goods can be got rid of by a sacrifice of price, or may be even given away as often happens with fish. The market then recovers its equilibrium and a new start is acquired. But the living men and the living children cannot be made to disappear, except by violence or neglect, or the agency of nature. If no new field of production presents itself and they still remain alive and in excess, they must be fed and clothed out of the stock provided for the remainder of the population; they lower the standard of living of the whole people. The disaster is all the more trying, in that this very supply of children was created at a time when it was reasonable to marry: when trade had been long prosperous, and production with its reward was increasing. Truly this is an embarrassing trouble in the lot of the human race on earth.

But secondly, a still more powerful force is ever pressing against the equilibrium of the market for labour. As we have already seen, man, like every other animal, is capable of multiplying his numbers

much faster than food increases, and this tendency is ever fighting against the inexorable laws which govern human subsistence on earth. It has been calculated that the human race, with adequate means of living, can easily double its number in twenty-five years. This tendency can be controlled by two forces only: moral restraint acting on marriage, and want, with its various forms of misery, culminating in death. It cannot be doubted that the numbers of every population on the globe are in a certain degree reduced by want, in one or other of its forms. Inadequate food and clothing, want of shelter against climate, the failure of harvests and famine, manifold forms of disease especially in childhood, neglect, lack of medical help, wild habits and war, shorten life more or less largely below its otherwise natural duration. More human beings are born than the necessary means of subsistence can keep alive.

This excess varies much in different countries, partly in consequence of the effects of climate on the supply of food, but still more from the moral force which civilisation brings to bear on the tendency to over-multiply. Man is not left by the constitution of the world the helpless victim of animal instincts. Moral powers are implanted in his nature, which enable him to control, more or less successfully, the elements of his being. In the matter of population he is capable of perceiving and reflecting on the consequences of thoughtless marriage. It is a well established fact, that as men increase in comfort, and have much to lose by recklessness, a strong tendency to prudence in marriage is developed. The rich notoriously hesitate to contract marriage until a

fair prospect of maintaining a family is obtained. They marry later in life, and, as Mr Danson remarks, "they do not on an average leave children enough to replace them in the next generation; though of the children born to them, they rear, by better care, a larger proportion than are reared of the children of the lower classes." But this sentiment prevails in other classes in civilised countries. In England a few years of prosperous trade leads to a considerable increase of marriages among the working classes; when times are bad, and wages sink, marriages markedly decrease. In France and Switzerland the whole people pause before engaging in marriage. Irishmen, living on potatoes, and accustomed every year to fight starvation for a month between the old and the new crop, fell into the feeling that marriage could not make them worse off, and multiplied their numbers in utter recklessness. Under such circumstances the moral force was sadly weakened. The same temper prevails in a yet higher degree amongst the great populations of the East, whose numbers are pushed out to what the barest minimum of food will sustain in ordinary years, and are content to run the risk of dying of hunger under periodical visitations of famine. Moral restraint seems to be wholly wanting.

In this most grave matter, habit, one of the most powerful forces in human nature, plays an immense part. Habits can reconcile men to multiply down to the lowest margin of subsistence, though they well know that deficient harvests and consequent famines are regular events in their lives. They lack strength of character to commence a new habit. On the other hand, habit brings powerful help to communities differently con-

stituted. It springs up amongst men who are conscious that life possesses for them comforts which thoughtlessness may destroy. They learn to make efforts to increase, or at least to maintain, this standard of comfort; and if the circumstances of the country admit of material progress—and rarely does it happen that they do not—the habit establishes itself of pausing before marriage till the prospect of a decent home seems to be secured. Advancing civilisation strengthens and enlarges the process. The desire and the will to work are developed, and bring fresh resources. As comfort expands, prudence unconsciously waxes stronger, and the relations of population to food steadily improve.

The chief moral to be drawn from these facts is the extreme importance of building up in a people a high, and if possible, an advancing standard of living. No force is comparable to this in combating the danger of over-multiplication of numbers. None calls forth in equal degree the best qualities of human nature, its self-command for a high purpose, its desire and its courage to make resolute efforts to sustain itself, its self-respect, and its progressive appreciation of the gifts of civilisation. Ireland passed through bitter suffering when the failure of the potato sentenced more than a million of her inhabitants to perish; but she obtained a fresh start in the race of life, and her position is at the present hour far loftier and safer than it was in the past. The vast development of trade has conferred similar benefit on the English people. There is no class but would recoil from the physical and material condition of the country half a century ago.

Thus in various ways, the supply of labour adjusts

itself to the demand although never without some amount of chronic suffering, even in the most prosperous nations. The quantity of births which the condition of a people will admit of without deterioration never can be known beforehand. It is learnt by experience, and instinct is too strong always to take its stand on prudence. We have also seen that the difficulty of adapting the supply of labourers to the power of rewarding them is severely aggravated for a country which has all the world for its customers. The ups and downs of trade, that is, the varying ability of its customers to purchase, bring great trouble on the labour market, and much suffering both on labourers and capitalists. Happily, however, modern civilisation has provided a relieving force of great power. Fresh lands are taken into cultivation in new or imperfectly developed countries, and they speedily raise up large resources for supporting population. Emigration brings help to an over-loaded supply of labour. Emigration saved many Irish lives in the day of her affliction, and bestowed very efficient relief on England during the long years of the recent commercial depression.

Such are the general forces which act upon the market for the hire of labour, and its reward, wages. They present numberless varying situations at different times. On each occasion the two parties, the buyers and the sellers must ascertain for themselves, by bargaining or otherwise, what is the value, then and there, of the article demanded, the services of working men.

But it is contended by large numbers of the labouring class that this is an incomplete description of the condition of hiring labour. They maintain that there are ir-

regular and disturbing forces which defeat justice and fairness, and give undue advantages to one side of the exchange. They assert that the buyers possess a power of combining which is capable of coercing the sellers of labour, and that consequently they need to organise special protection for themselves in order to attain what is their due. This will form the subject of the next chapter.

CHAPTER VIII.

TRADE UNIONS.

IN most industrial and commercial nations powerful associations have been organised for the protection of what they hold to be the rights of labourers in relation to those of capitalists. They are met by counter organisations of employers. The labourers have the command of large funds, contributed by multitudes of workmen. Elaborate machinery and rules for joint action are provided under leaders possessed of ability and energy. In the market for labour the buyers find that they have to deal with united combinations of labourers. Instead of settling with the men whom he wishes to engage the terms of hiring, the employer is often confronted with the whole body of workmen in his particular trade all over the kingdom. Thus, for the ordinary method of bargaining in the market is substituted a struggle founded upon force. Sometimes negotiation is had recourse to, with occasional success; but the more usual practice is open war. The labourers are withdrawn from the works of the masters: industry, the workmen themselves, the employers, and the whole community, are all injured together.

The relations between employers and labourers touch to the quick the welfare of every State. The interests

of civilisation are deeply staked on this great issue. No country is more vitally concerned in the problem than England. She trades with all the world, because all the world buys her products; but by this very fact she is brought into competition with the industries of every country. Any change in the cost of production of any of her manufactures might strip her of a large trade, and thereby deprive her of the power, not only of maintaining her wealth, but of feeding her people. On no subject, therefore, is the duty of all more clear and more imperative than on the relation between employers and employed to analyse its elements, to discover the truths—the facts and principles—which underlie it, and to bring them home to the understanding of every man in the nation. The truths thus obtained will often need to be repeated. A truth is not established in universal reception by its first recognition. Every teacher addressing a body of students must repeat; the things taught must often be sounded in their ears before it can penetrate their minds. Many Political Economists of distinguished ability have treated this very question with eminent power; yet little of what they have shown to be true has sunk into the understandings of millions. The same teaching must be incessantly repeated for a long time to come. "Nothing is taught well," says Matthew Arnold, "except what is known familiarly and taught often."

That it is in the highest degree desirable that masters and men should work together in harmony no sane man will dispute. The only question that can arise is, Is it possible? The answer to it must be found by a careful examination of the points of difference. But

here, at the very outset, we encounter the unwelcome fact that the denial of this harmony is laid down by most Trade-Unionists as the very foundation of their position. Their doctrines and their actions are based on the assumption that capitalists and labourers are, by their very nature, necessary and irreconcileable antagonists. Let us then consider the theory they propound, and the inferences which they draw from it.

1. Capitalists and labourers are antagonists. They divide a common fund, between them. What one man wins of it the other loses. Their respective interests, if not absolutely hostile, are in direct conflict.

2. Capitalists are able to combine for applying coercion on labourers in determining the price to be given for the hire of their services. They can enforce lower wages than the state of the labour market at the time warrants.

This being so, labourers must, on their side, also combine for mutual help in contending against the coercion of masters; in no other way can they obtain fair play and justice. Without union every man would be at the mercy of the buyer of labour, and would be compelled to submit to the wages imposed upon him.

3. Not only must the labourers oppose association to coercion, but further, they must lay down certain economical principles, which would strengthen their position, and would lead to their winning a larger share of the fund to be divided.

The chief of these principles are—

a. Limitation of the length of the day's work.

b. Abolition of working by the piece, and the substitution of wages by the hour or the day's work.

c. All workmen to receive the same wage, whatever their quality.

d. Abolition of payment by the piece and of overtime.

e. Limitation of apprentices.

f. A minimum wage to be given to all labourers.

g. Diminution of production to secure higher prices for the goods; and when demand for the things produced is weak, working on short time with no diminution of the existing rate of wages.

h. Refusal to work with non-unionists; monopoly of work for members of the unions.

1. In considering the first proposition that masters and men are necessarily in direct antagonism, it is very essential to keep two situations thoroughly apart in thought. The mixing of them up together is the main cause which hides the true relation between capital and labour from the public eye. These two situations are, first, a steady trade worked by a sufficiency of labourers and no more; secondly, fluctuations either in trade, or in the numbers of the labourers, or in both. The two positions are wholly different in kind. The second generates uncertainties which give rise to all the quarrelling and to the doctrines which it calls forth. When the demand which was good last year is bad this, and the workmen who could then find well-paid employment are now too many and are put upon short time and reduced wages, that distrust should often spring up, to the obscuring of the real nature of the relation of the masters to the men, is inevitable.

The point to grasp and to bear steadily in mind is that these are storms on the surface; they are not the sub-

stance of the position of capitalists and labourers in industry. Not to be sure that the altered wages are just and unavoidable only shows that the true market value of labour is hard to discover under the circumstances of the day. That in an obscure state of the condition of the market a man should doubt whether he has received the true value of his article is no proof that he and the buyer are natural enemies. Both of them may be honestly in search of the right price; and each of them may be doubtful whether it has been found. The true rate of wages at such times can be discovered only by trial—by bargaining—by testing the competition of the masters to secure the workmen—by trying to get work at one mill, if the wages are unduly low at the other.

Bargaining, however, on so serious a matter as what a man shall have to live upon easily generates irritation. It strikes deeper into human feeling than bargaining at a cattle fair or in a corn market. It cannot be exactly a matter for wonder if a number of men, in the same identical position, should try, by acting together, to fix wages, unaltered, at a particular point. But these uncertainties, and the feelings they excite, furnish no warrant whatever for inventing new ideas as to the essential positions occupied by masters and men towards one another in production. These positions can be learnt only from the facts of industry in ordinary and normal times. Transitory perplexities reveal nothing but a liability to occasional disturbance. High floods on the Thames are not the phenomena from which to learn the nature and the laws of the tide.

Taking, then, the even flow of industry, nothing is more certain than that the interests of capitalists and working

men are most intimately bound up together. Each is indispensable to the other. Without the capital of the employer the workman starves; without the workman the employer loses everything for which he accumulated capital; he loses profit and income, and if no workman can be procured, he too will starve at last. Here, then, is a bond of union of the very firmest. They are absolutely necessary co-operators. They are both rewarded out of the same fund—the products, the quantity of the things made. They are both deeply interested that that fund, that quantity of goods made, should be as large as possible. Even on the theory that it is only a fund about whose partition to battle over, it would be infinitely the better for both parties that it should be large. Then it is for the interest of masters and men that the great body of consumers should be benefited by a great production of goods, to be sold at the lowest necessary price. The consumers are the source from which flow all the reward, the profits and the wages; the cheaper the goods, the more of them will be bought, for the desire to consume is practically unlimited.

Still more, the labourers constitute incomparably the largest part of the consumers; what the rich buy and consume is but a trifle in comparison with the consumption of the working classes. Thus efficient labour and great results in goods produced benefit these classes most of all in the whole community. To make things dear in every shop, by producing little and destroying much as wages, is simply a suicidal policy, a wanton infliction of poverty on themselves. Further, no employer who understands his business, grudges high wages to his men provided that they are earned by

good work done, which can be sold at a good price; as well might he stint the horse that toils for him. Good work, in a steady trade, always asserts itself in good wages. Able workmen cheapen the cost of production to the employer, and reduce what is called the cost of labour in the calculation of the charges on the business; and thus by increasing consumption vigorous work comes back to the workmen in the form of steadily sustained, or even raised, wages.

Low wages in the same country almost always mean slack business and low profits for the employers. In a different country the normal rate of wages may be low. It is so in France, compared with England; but these low wages indicate, either an excess of population—which, however, is not the case with France—or, far more commonly, labour of comparative inefficiency, which produces less work in a given time, or else trade of narrower dimensions. Low agricultural wages were the concomitants of poor farming and indifferent profits. As farming improved in character, and work of a better quality was needed, wages rose, and farmers now gather in larger profits Countries in which wages are permanently low are not those in which employers accumulate large fortunes on an extensive scale.

On the other hand, the United States and the Colonies furnish the most solid instruction on this great subject. Profits and wages, in ordinary times, as has been already explained, are exceedingly and permanently high, the cost of production exceptionally low, and prices exceptionally moderate. All the parties—masters, workmen, and the whole people—prosper together. This great

fact establishes the real identity of interest of the masters with the men, its great characteristics being two—no excess of labourers, and cheapness of the cost of working, through the large return yielded at small expense to the work of producing. The farmer pours large wages into the hands of his labourers, because each man's labour creates so much wealth, produces, compared with the capital and labour employed, so much corn or wool. In proportion as the industry of England walks in the same path, and follows out the same principles, the results gathered will be the same. That nature, by the virgin fertility of the soil, is a powerful agent in reducing the cost of production makes no difference in the principle. She does prevent the English workman from having actually as high reward as the Australian; but in the same proportion as he by his efforts lessens the cost of producing the goods, he will come under the same law, and reap better remuneration.

The vital matter is to increase the purchasing power of the people—to give them more wherewith to buy what industry makes; and that consists of, and can consist of nothing else than, largeness of wealth produced by labour. Increase that, and no master will attempt to screw down his workmen, and no labourer will complain of stinted reward. The master will be eager to employ more men, to procure efficient workmen, and to remunerate them handsomely for good work turned out; he cannot improve his profits in a more effectual way. On the other side, the workman will learn that his employer's prosperity is also his own; that the profits he earns may not only keep up the business, but

also lead to its extension, whereby further means are acquired for seeking out labourers and rewarding them with wages. The labourers, as a class—and it would be well if they realised the fact—have the strongest interest in the acquisition of fortunes by employers, for those fortunes are fresh capital to be applied to the hiring of labourers. Their one object is income; and they cannot obtain incomes except by first paying wages.

And it must not be forgotten that, as an almost universal rule, industrial fortunes are not made out of a high rate of profit, but out of moderate profits earned by large operations, which are carried on by multitudes of labourers. They are conducted in great establishments, which admit of important economies in the cost of superintendence and administration, and by the use of superior machinery. There is no antagonism to wages in businesses thus managed. On the contrary, the masters need superior workmen under such circumstances, and can afford and are glad to pay them high wages, because a very trifling profit on goods cheapened by great economy of manufacture yields large results in the aggregate, through increase of sales and the great magnitude of the business. What, then, is to be said of the oft-repeated complaint that fortunes abound on every side, and that they have been made out of the toil of the labourers and to their injury? The answer is easy. Those fortunes are means for giving wages; there is no income to be obtained out of them to spend on enjoyment but by employing labourers. What can show more conclusively that the interest of masters and men are most intimately allied?

History strikingly confirms the truth of these facts.

It records in the clearest notes that the prosperity of the working men has kept pace with the prosperity of the employers: that both have gone up together. The vast increase of the wealth of rich men in England during the last sixty years is a fact perceived by every eye. How has it fared with the labouring classes? Do they receive, would they for an instant accept, the same wages now as they did then? Their progress in wages, in comfort, in standard of living, and, with sorrow be it said, in costly drink, has been proportionate. The case is admirably put by Mr Danson: "Sixty years ago the number of paupers maintained out of the rates in London was about 106,000. It seems that the number in 1875 is about the same, though the population is about threefold what it was in 1815. This, no doubt, implies much improvement in the management of the pauper class. But the point to which I would invite your attention is this. The pauper does not, as you know, fix for himself the style of his living. It is fixed for him by others; and the common rule is that he shall not live materially better, nor much worse than he would do if he worked for his living, as a labourer of the lowest class. Now we find that the cost of maintaining the 100,000 paupers of London in 1875 was five times as great as the cost of a similar number in 1815. And on examining the accounts it appears that the excess arises almost entirely from the difference between the ideas prevailing at the two periods, as to what is absolutely or humanly necessary for the decent maintenance of even the poorest of the poor."* The labourers have reached a far higher

* "Lectures," p. 42.

standard of existence. A much more elevated minimum of wages has been secured. Their numbers, we know, are much larger, but their welfare has grown in a still much higher ratio. This is a fact, on humanitarian and social grounds, of extreme importance. And the rise is not in nominal wages only, in money, without any corresponding improvement in real wages, in the articles bought with the money; for the articles purchased by the working classes have not increased in price. Bread is cheaper than it was sixty years ago; so are sugar and tea; clothing is better and not dearer; and numerous small comforts and conveniences, which materially smooth and civilize life, may be procured at trifling cost. This is the result of efficient labour, heartily applied with the aid of machinery, producing much work, generating on that very account a low cost of labour, cheapening commodities, enlarging the powers of consumers to buy, and diffusing enlarged prosperity in every class. These results do not breathe a syllable about antagonism between masters and workmen.

Such are the things which take place when business is steady; wages and profit do not then increase or diminish at the expense of each other. But steadiness of demand and supply is not the uniform characteristic of modern trade. Fluctuations in demand and prices abound. Business suddenly becomes slack—and this slackness will often last long, as the general commercial depression since 1873 strikingly shows. Buyers are fewer and prices sink away. Employers are less eager to hire in the labour market; they offer lower wages, and possibly are unable to employ all the workmen who seek employment. Or all these circumstances

may be reversed, and the masters may compete eagerly with one another to get the men.

We have seen that the only process by which the true market-value of labour can be found under such circumstances, save when long prevailing custom makes little alteration in wages, is bargaining; and bargaining can be made to wear the look of ending in an advantage won by one of the parties at the expense of the other. Thus the belief arises in unreflecting minds that the situation is one of opposition, if not of hostility of interests. But this belief is entirely erroneous. Hostility does not make its appearance because variations present themselves in the demand and supply of labour; what does arise is uncertainty as to its then true market value. Every reason which binds men and masters together is as strong and as real under fluctuating as under steady trade; but what each in fairness exactly ought to have is hard to find out. It may be that the price, the wage, ultimately reached is not the just apportionment between the parties; but the principle remains the same that fair play and justice, if only they can be discovered, are the really best things for both parties.

The perplexity, beyond doubt, warrants counter-calculations, counter-estimations of the forces at work. Human nature is apt to be weak, and not to be as quick-witted in discerning what one ought to give as what one ought to receive. Undue stress may easily be laid on many factors of the situation; but, still, the great central truth remains unshaken, that the interests of both sides are harmonious, that the just wage is the foundation of the prosperity of both parties.

Why should employers and labourers be thought to be enemies, any more than farmers and dealers at a cattle fair? Does any one maintain that the dealers have a permanent interest to pay less for the beasts than they cost the farmers to rear, or the farmers in overreaching the dealers, merely because before the state of the supply and demand is ascertained prices are uncertain? The ignorance of the real situation breeds in some a momentary spirit of gambling. The courageous hold on, the timid sell; when the relation of the demand to the supply is discovered, who have won, who lost, is known. But all this is but a passing commotion on the surface of the relation of the parties to each other. No one doubts that at bottom a fair reward for the producer, and a reasonable profit for the dealer benefit the whole trade: and so it is with employers and labourers.

2. But it is alleged that the capitalists can combine, and can thereby apply coercion against the labourers. They can; that is undeniable. They have done so largely in the past. In ancient days they have abused the power of legislation to oppressing the liberty of the labourers. In many countries they were made slaves. They were converted into serfs, restricted to dwell on particular spots, and forbidden to hold property. A statute of Edward III. fixed for the whole kingdom what wages should be paid in the chief departments of industry, under pain of being placed in the stocks. Richard II. and Elizabeth, passed acts empowering justices in every county at their discretion to proclaim how much every mason, carpenter, tiler, and others after their degree, should take, with or without

meat and drink. This power was repealed only so late as the 53 George III. Labourers were forbidden by Edward III. and Richard II. to betake themselves to any other craft or occupation than that which they had chosen at the age of twelve. As Professor Walker points out—"by the statute of apprentices, 5 Elizabeth, the access of unskilled labour to the trades and professions was restricted within the narrowest bounds." Only a few special persons could become a merchant, draper, goldsmith, ironmonger, or clothier. Edward III. forbade any labourer in agriculture "to go out of the town where he dwelleth in winter to serve in summer."

The law of parochial settlement imposed similarly oppressive restrictions. Their mischievous and impoverishing effects have lasted down to our day. In France the oppression of the privileged class, which exacted the gratuitous labour of the peasantry for many days in the year, whilst they imposed taxes from which they were exempt themselves, was so intolerable that the most violent action recorded in history was provoked to avenge the wrongs of the labourers. These sufferings run through English history. The pillory and the stocks were freely administered to the idle and to such as would not work as their masters chose. At a later period, down to our own time, a more subtle appliance stripped free men of their natural rights to refuse conjointly wages which they thought inadequate. They were not masters of their own strength or of the use of their own limbs. They were brought under the highly penal offence of "restraint of trade." A single man was allowed to bargain for his wages. Two bargainers doing the same act at the same time were guilty of a crime against

trade. In agriculture migration in search of employment was stopped by the law of settlement, while a poor law trained the labourers to give up all thought about the increase of their families.

In all these matters capitalists acted in the deepest ignorance of their own interests. They were far more guilty of restraint of trade than the labourer. They demoralised and degraded the workman, and inferior work, inefficient labour, great limitations of profit, want of progress in the nation were the avenging penalties which that ignorance, that perverse and blundering folly necessarily had to pay. But all this has passed away, and the workman is in full possession of himself and of his right to labour on his own terms. Nevertheless the power of combined and injurious action is not altogether extinguished. It is certain that in the retail trade, as was before explained, shopkeepers know how to combine against consumers. Consumers are units with small powers of association. The dealers understand each other and act in common, and exact unfair prices from the public. The working man is weaker still. He has himself and his family to maintain, and that is an urgent matter. The master can wait more easily. Adam Smith declared that masters were always in tacit combination against workmen. The labourers are apt to fall into a spirit of acquiescence. If left to themselves individually depression easily lays hold on them, especially the women; and there always remains the fact that it is very difficult for workmen to learn the true state of the market, the prices fetched by the goods, the amount of orders on the employers' books, or the rate of profit, whether reasonable or excessive.

These and other considerations of the same kind warrant a joint understanding, and, if thought desirable, joint action on the part of the workmen. They may say with reason that under such circumstances union is strength. But this principle by no means implies hostility and combat. It only goes so far as to furnish valuable help in obtaining that knowledge of the market which is so important for them, and in resisting the temptation into which masters may so naturally fall, of forming a one-sided and inaccurate estimate of what wages the business is likely to warrant. On this ground unions are perfectly legitimate.

But there is another service which union may render to the workmen and to society. History painfully reveals how easy it is for that human nature which is common to masters and to men to establish modes and conditions of working which morality aad civilisation are alike bound to condemn. Excessive labour imposed on women, work carried on under dangers against which reasonable care makes no provision, selfish sacrifice of the health and education of children to an excessive desire of gain, labour kept up for an unjustifiable number of hours under conditions which debase the moral and material wellbeing of man,—such offences against the value of human life are not incapable of being successfully checked by the joint action of men who are alive to the character of such wrongs. But in this grave matter let us be just. We must not lay the blame of such scandals on one only of the parties to the sale of labour. The employer is morally culpable when he pursues profit with cynical indifference to moral and material effects which his manner of conducting his

business produces on the labourers. He knows better. He has a greater power of thinking and reflecting than they. He ought to recoil from tempting them to work which renders life hardly worth the living. But on the other hand, the labourers are not altogether innocent. In their eagerness to increase their gains, they sink down to a lower standard of living. Had they but the right feeling they would refuse to keep up their numbers on such terms. But that right feeling is most difficult to create. The very fact that they submit themselves and their children to such labour tends strongly against the growth of such a sentiment. Nevertheless heavier is the blame which falls upon the masters, and consequently justifiable is the association of labourers which may generate the feeling that such a life is intolerable and must be brought to an end.

But here it is necessary to point out a principle of great importance. Prohibitions by law to labour beyond a certain number of hours, to earn a cruel gain by children, to employ women in certain occupations, are decrees that less wealth shall be produced, that more labourers shall be engaged for the same work, that the nation shall be less rich. It is not to be denied that Political Economy does make these assertions; they proclaim stern and real facts. So far, the nation is the poorer for the legislation; there is only the same quantity of wealth produced, and its cost of production is increased. But to charge Political Economy with teaching that this diminution of wealth is wrong, and that every measure which limits riches must be rejected, whatever be the moral, personal, and social consequences of the acquisition of such wealth, is an

imputation on Political Economy as unjust as it is widely spread. Political Economy, it has been already shown, does not teach that wealth must be acquired at all costs. It nowhere preaches, "*Rem, quocumque modo rem.*" It nowhere denies that there are things better than wealth, and that wealth ought to be sacrificed to obtain more worthy ends, or to avert evils for which wealth can give no atonement. Nothing destroys wealth like war; has Political Economy ever taught that national honour and self-respect must be flung to the winds if they can be maintained only by an impoverishing war? Political Economy legitimately and consistently declares that the pursuit of wealth by means injurious to the well-being of the people is rightly forbidden by the State, as the guardian of all classes of the community. Such philanthropy—a philanthropy based on a deliberate judgment that the highest motives of humanity demand that certain acquisitions of wealth must be abandoned as tending to degrade a people and its civilisation—may be insisted on by every Political Economist with perfect consistency. But there is another kind of philanthropy which must now be considered.

3. Labourers, then, are justified in seeking the aid of one another in the settlement of the true market of labour under the actual circumstances of the day. They need such associated assistance in bargaining—that is, in what Adam Smith calls the higgling of the market. This does not mean that all selling of labour is a battle. On the contrary, when trade has been long steady, and kindly feelings have existed between employers and workmen, a just wage is arrived at without calling out

any feelings of jealousy. But as the great trade of modern nations partakes less and less of this character, the labourers, without combination, find it hard to be sure of what they may justly claim for their services. To arrive at this knowledge is the main and legitimate object of a Trades Union. In the attainment of this, end, the course which modern industry has taken deprives both parties more and more of a resource of great value.

The tendency to accumulate thousands of labourers in vast establishments in which machinery performs its wonders is ever on the increase, with much cheapening of the cost of production; but it entails a grievous loss for the social condition of the people. It weakens, often destroys altogether, the personal relation between master and men. An employer cannot be familiarly acquainted with four or five thousand workmen, many of them constantly changing; he must, of necessity, interpose between him and them, the manager, and the foremen. He can receive reports on their individual efficiency; but he cannot keep up with them that friendly interest, that personal intercourse, that attachment on both sides, which bind together a society based on moral relations, and which may furnish invaluable aid in smoothing discussions on what is the just rate of wages. Masters are now compelled to negotiate with large bodies of workmen; and the bargaining is thus naturally carried on by representatives on behalf of the labourers. I will not exactly say with Mr Rupert Kettle, at the Church Congress, that the Union was the necessary outcome of such a situation; for the Union has frequently flourished amongst agricultural labourers,

whose scattered position necessarily maintains a personal connection between the farmer and his men. But, undoubtedly, these vast aggregations of similarly placed workmen render the birth of the Union easy; and then the difficulty of arriving at the just wage by bargaining becomes greatly aggravated.

But Trades Unions, as they are now worked, pursue objects of a far wider range. They are not content with debating with employers what is the value of labour, according to the state of the demand and supply in the market. They are not satisfied with obtaining for labourers their just rewards according to the condition of the trade, the numbers of the labourers seeking employment, the prices realised by the goods made, and the means of the masters to pay wages. They have far more ambitious aims. They frame a policy of labour to be imposed on the labourers as much as on the masters, as to the manner in which men shall work.

This policy is founded on a distinct theory of human life in respect of working. They seek to dictate, not only the price of the article to be supplied by the labourers, but also its form and quality, what sort of an article it shall be. They refuse to be limited by ideas which relate to market value, and the fair price to be given for the thing furnished; they insist on prescribing what kind of a commodity shall be supplied. The employer is not to ask for labour, and the labourer to give it, on terms arranged between themselves. Master and man must cease to be pure buyers and sellers, hirers and hired. Only a certain kind of labour shall be brought to market and sold; a kind ordered by

a few leaders of Unions. It shall not be a simple hiring of a labourer's faculties of mind and body to be applied, in the exercise of his natural liberty, to the work prescribed by the hirer in return for a reward mutually agreed upon; nor shall the order of the Union merely specify the amount of that pay. The labourer's liberty to dispose of his own person, to sell his service on his own terms, is taken away from him. He must impose the condition on the master, that if he engages another but inferior labourer to work by his side, the worse workman shall receive the same wage with himself. All labour shall be regarded as the same. No difference of quality shall be recognised. There shall be no good workmen and bad workmen. The decree of the Unions pronounces them to be all alike, just as if fishmongers and cattle dealers were to pronounce that there are no large salmon or small salmon, large bullocks or small bullocks; all shall be bought by the head and paid for at the same price. Nay care shall be taken that there shall be no labour of the best quality. The spirit of the workman shall be to make what he gives for his wages, his work, as small as possible; his aim shall be to produce as few goods as he can.

Now, it is obvious that such rules and practices are founded on ideas in which the conception of exchanging is totally absent, of giving and receiving in exchange things of equal value. They imply a relation between employers and labourers radically different from that of hirers and givers of services, of buyers and sellers in a market. The spirit they breathe is that of a lawgiver who lays down at his own pleasure what shall be the position of labourers in the world. He frames an

arbitrary constitution, devised at will, not for a market, but for a society composed of consumers, employers, and labourers, amongst whom he distributes wealth as he chooses. The Union leader is a Lycurgus, organising a State according to his ideas. The question immediately arises, Is this practicable? Does the position in the world of men without property admit of their deciding, just as they may fancy, what wages they shall receive, and what work they shall give in return for them? Is the policy of the Unions compatible with the actual facts of human life? The answer to this fundamental question admits of no doubt. The Unions go too far, or not far enough. They can carry out their principle—but upon one condition, pure Communism. If they are able to impose on a nation a social organisation founded on the basis of the abolition of property, in which there shall be no rich and no poor, then the public force will allot and enforce work, and distribute its rewards at the pleasure of the ruling power. But if property, with the legal rights it implies, is the foundation of society, and if a labouring class—estimated in England at ninety-six out of every hundred of the population,—possesses no property, and is compelled to live on what they are able to obtain from those who have saved capital, and who can dispose of it at their will, then it is certain that the relation between the two classes must be that of buyers and sellers of labour in a market, and must be governed by the essential nature of all markets. The rewards procured from employers in the end must be such as they are willing and able to give. There must be a limit to wages beyond which the capitalist will cease to have anything

to do with labourers, and will refuse to give wages. He cannot consent, except upon compulsion, to work permanently at a loss, or to allow his capital to be destroyed by men whom he voluntarily chooses to keep alive with it.

(*a*) With respect to the objects aimed at by the Unions, we have in the first place the limitation of the hours of labour. They demand that a day's work shall last only eight hours in the place of ten. Now it must be freely granted that the shortening of the time given to labour to the increase of those available for rest and enjoyment is a natural and legitimate object of desire. That it is attainable by the people of England to any such extent as that proposed it is scarcely possible to believe. Such a diminution of labour necessarily means a corresponding diminution of wealth produced. There would be a much smaller stock of things for the nation to live upon and distribute among its population. The labourers, under such a rule, must be worse off, unless they turn out the same quantity of goods in the eight hours as they did in the ten, or unless they can fasten the loss on their employers. That this last is the real meaning of the Union can hardly be doubted. But what does such a policy come to in that case? To a rise of wages exacted from the employers by compulsion. It demands the same pay for four-fifths of the work done as was previously paid for five-fifths. This brings us back to communism. The employers are no longer free hirers of labour with the capital they have saved. They are subjects at the mercy of dictators. The demand for the same wages with less work, with fewer goods to sell, unless that work be

of better quality and can fetch a better price, is undisguisedly a demand that the master's profits shall be reduced to give two hours' leisure a day to the men. The masters will reply that the state of the business will not admit of such a loss, and the demand for labour must fail.

There is a second embarrassing difficulty in the way of the reduction of the hours of labour. Machinery plays a very large and increasing part in modern industry. It lies at the foundation of the vast commerce of England. The expense of using this machinery is a part of the cost of production of the things manufactured, and must be repaid out of their sale. Now this expense would be very little, if at all diminished, by a reduction of the hours of labour. There would be less coal burned in the engine which turns the spindles in the factory, but the engine which pumps or ventilates the mine must continue its operations and its consumption of coal. The workmen resting at their homes would give no respite to its movements. There are other heavy charges which would press with equal weight after the reduction of the hours of labour. The expense of management, the interest due on the capital engaged in the business, the rates and taxes imposed on the buildings, the salaries of many clerks and superintendents, would be unaltered, whilst the goods produced would be fewer, and the means for making these payments would be lessened. Thus the reduction of the working day by a fifth would tend powerfully to raise the minimum price at which the articles manufactured must be sold. The manufacturer can protect himself in no other way than by transferring his capital to some

new business or country. In either case the labourers are injured; there is less capital to support them. A rise of the prices of commodities, no doubt, would be the general result, and then the whole community suffers. Less goods would be made and they would be dearer. The inevitable consequence would be two distinct blows on the labourers. There would be fewer workmen wanted for work, because the reduced wealth of the country would diminish the means of hiring them and giving them wages. And, secondly—and this is a point which the working classes would do well to remember in connection with this subject—the general dearness of the articles on sale, the higher range of prices would fall most heavily on them, for the labourers constitute the vast majority of the buyers and consumers in a people.

Nevertheless, there is one case in which it is legitimately open to the labourers to shorten the hours of the day's work. It often happens that a rise of wages, even a permanent one, is warranted by the settled prosperity of a business, and is sure to be realised by the labourers. Under such circumstances they may select to take this advantage in the form of a shorter day's work. They may take the gain in hours and not in money. They may prefer leisure to a higher style of living, and if the alternative should lie between less toil or more drink, great would be the moral and material superiority of less labour over more money. The employers would not be injured under the hypothesis that the larger results of the business necessarily bestow a higher reward on the labourers. No doubt if the workmen made a different choice, and continued full work at improved wages, the business

would receive still larger expansion, and profits would tend to increase. But this consideration does not affect the right of the labourers to fix the terms on which they shall render their services to masters, where the state of the trade and of the labour market empowers them to do so. Every man in the community possesses an inherent right to dispose of his time and labour at his own pleasure, and Political Economy does not pretend to assert that every other element of human life must be sacrificed to wealth. For every class of society there is something better than to be ever at work in becoming richer.

Here, thirdly, a consideration of incalculable weight presents itself—one that bears heavily on the general policy of Trade Unions. The immense trade of England depends mainly for its existence on the purchases of English products by foreign countries. The food itself of half her people is sent over to her shores by foreign buyers of her goods. What if they should cease to buy? Her manufactures are sold abroad in open competition with those of other nations. What if the purchasers should prefer the manufactures of her rivals as being cheaper? There is no compulsion to force them to buy of England. The products of her competitors are often as good as her own. Superior cheapness is the deciding motive which hitherto has brought the customers to the English market. But even now, in this very matter of comparative price, the competition of foreign manufacturers has proved formidable. American cotton and Belgian iron have been sold freely, even in England herself, in spite of the cost of carriage with which they were loaded A forced and general reduction of the

day's work to eight hours, by raising the prices of English goods, would drive them off many markets, and reduce millions of English labourers to destitution. The margin of superior cheapness possessed by English goods is too small to retain the custom of foreign buyers for English wares, if less work is to be given for the same wages in England on a large scale, and if the minimum at which they must be sold, to face the increased cost of production, must be necessarily raised. Buyers in every market abroad would find articles of equal goodness with the English offered on lower terms. There could be but one result to such an issue. English goods would be driven off foreign markets, and the means of England to maintain her population fearfully reduced.

This great feature of English industry—that so large a portion of it is occupied in producing goods to be sold abroad in keen competition with those of other nations—is a fact of which the Unions are bound to take the most serious notice, but which, unfortunately, is too commonly disregarded.

(*b.*) A second principle, adopted by many Unions, demands the same payment for all labourers. The daily wage is to be the same for all. It is commonly defended on humanitarian grounds; the Union is bound to protect all its members. It cannot permit a miserable pittance to be doled out to those of them who are deficient in skill and strength. The labourers are to be regarded as a homogeneous body of men, to be treated all alike, and not to be subjected to the picking and choosing of masters.

This policy admits of no defence. In the first place

it has been well remarked, it runs counter to a fundamental principle of human life—a principle which even Socialist writers, even when preaching equality, have not ventured to challenge, that differences of merit must be followed by different degrees of wealth as their reward. A social state, which in actual practice, permanently violated this primary instinct of human feeling, is not conceivable. It would be quite as reasonable to demand that every bullock and every sheep shall be paid for at the same price.

In the next place, this policy ignores the position of labourers in the world. They are men without property offering their services for hire; and the hire they earn must necessarily—except under compulsory and absolute Communism—be proportioned to the quality of the service rendered. The labourers live by what they obtain from the owners of capital in exchange for the work they perform. As was shown in a previous chapter, the employer must receive the worth of the money he pays. He buys labour, and the labour must be worth the wage or he must give up the business. He cannot and will not continue to pay for what he does not get. The work performed by the inferior workman is worse and less than that accomplished by the good one; and it is the work produced which every employer buys in hiring labourers. And is it not obvious that upon such a system the work given by the worst workman would become the standard of all? Why should the stronger and more skilled man make toilsome efforts, if he is to receive the same wage, whether he makes them or not?

Further, it is clear that equality of payment for al-

workmen is to enact a compulsory Poor Law on employers and ultimately upon the whole community. The bad workman does not pay for all his living. All that he receives above the worth of his work is manifestly a tax paid by the employer, if it diminishes his profits, or by the purchaser of the goods, if their cost of production, and consequently their price, is raised. Moreover, this rule, if universally enforced, would make the whole body of labourers themselves its chief victims. The price of every article they bought in every shop would be higher. They would have taxed themselves in order to give to others of their class what they had not earned. Is this what the Unionists intend? By no means; their idea is that the tax would be paid out of profits. But this lands them in the old fallacy that sellers of labour who must sell to live can make buyers, who are not compelled to buy, pay what they choose.

Further, the policy of equal wages for good and inferior workmen alike is open to a moral objection of the greatest weight. It degrades labour by lowering the tone of mind of the workman. The impulse which throbs in a man's breast to make use of the faculties with which he is endowed under the hope of the reward which such efforts will bring is one of the most characteristic and of the noblest instincts which the Creator has implanted in the human race. To place weakness and want of intelligence, much more laziness, absence of self-respect and of the spirit to improve his condition at the cost of effort, in one labourer, on a level with zeal to make the best of himself for his own sake and that of his family, with manly ambition to raise himself by

applying his faculties to the purposes for which they were given, in another is to debase the quality of manhood, and to defeat the great ends for which this superiority of gifts was bestowed. The Unions, by the policy of the same wages for all, humiliate men by training them not to look to their own selves for support, and to condescend to eke it out with what is nothing else than alms. Were such a policy made to prevail, nothing can be more certain than that the energy of labour would be corrupted at the core, and that the men who practised it must sink in vigour of industry and in the wealth and civilisation which it produces. The trade of such a country would be doomed to wane away.

And then there is the cruel wrong inflicted on the high-spirited and self-respecting labourer. Why should he be restrained by force from obtaining that rise in the world, that advance in his own calling, which he is eager to earn by exertion? His bodily and mental powers are undeniably his own property; why is he to be forbidden to listen to duty and conscience and legitimate desire to turn these faculties to good account because other men who are unlike him are resolved that he shall be the enslaved companion of their idleness or their weakness? Are his feelings, his happiness and welfare deserving of no regard? And what would be now the condition of mankind if this policy of the Union had prevailed in the past and had succeeded in making the strength of the feeble, and the moral tone of the lazy and the careless, the measures of progress and its rewards? Equality of wages is nothing short of a rebellion against the laws of human nature, a revolution against

its constitution. It violates the fundamental principle upon which the very conception of the word wages depends, and upon which alone they can exist—liberty.

(*c.*) The same policy is often further carried out by the order given to labourers not to exert themselves, not to do their best, but to aim at performing little work. This conduct is justified on two grounds. It will oblige masters to employ more men for obtaining the same amount of production; and the diminution of goods made will tend to raise prices, and thus secure a rise of wages. A more deluded and mischievous proceeding cannot easily be conceived. To compel masters to employ more workmen than are needed is, as we previously remarked, to enact a poor law for the support of the superfluous workmen. Then it is an attack by force on the profits of employers. If those profits are excessive, it may be successful; but there are better methods, in the interest of the men themselves, for obtaining a portion of those profits for the men than the degrading of the efficiency of labour, and the lowering of the moral tone of the labourer. But, in truth, it is seldom against excessive profits that this policy is directed. It is nothing less than war, in the expectation of cutting down profits to the lowest minimum. Such conduct forgets the keen competition amongst masters which distinguishes modern industry. It mischievously diminishes the common fund, the quantity of wealth produced, from which comes the prosperity of both masters and men. It ruins the master's confidence in the soundness of his business; it impedes the accumulation of fresh capital for the hiring of fresh labour; and

it drives away existing capital to other trades and foreign countries. The second reason alleged in favour of this policy proves that it would be practised at the cost of the very men whose interests it professes to serve. If it is a sound principle the Unions are bound to apply it to all trades, and the labourers will be hoisted with their own petard. The wished-for rise in the price of commodities will make everything that the labourers buy dearer; they will lose with one hand what they supposed they gained with the other. No possible advantage can come to them from acting in such a manner, whilst there will always be the fatal results, less wealth, a smaller stock of commodities, a poorer state of the country, and injury to every one of its inhabitants. It is a base and ignoble war—aiming at no lofty end—killing the impulse to improve and to reach a higher standard of feeling and civilisation—and injuring the whole community in the interest of the lazy, the low-minded, and the soulless.

(*d.*) A fourth measure demanded by many Unions is the abolition of payment by the piece. They complain that piece-work is apt to be scamped, to be inferior in quality to that produced by the man who is paid by the day. The labourer is too eager to have plenty of surface work to be measured; he is rendered careless as to its quality. Such language in the lips of men who claim the same wages for the idle and inferior as for the good and conscientious workman, thus treating the quality of the work given as unimportant, is strange indeed. Masters who, of their own choice, adopt this system of wages are fully able to take care that goodness shall not be disregarded. Then it is said that by piece-work

labourers are tempted to work overtime and thus to injure their health. It is enough to reply that every labourer is master of his own freedom in this matter, and he is perfectly able, if he chooses, to protect himself against his own cupidity. He does not require a Union for this. No Union has ever been dreamed of to save barristers, physicians, or literary men from an excess of voluntary self-imposed labour. The reason alleged by the Trade Unions is purely artificial. The real ground of their dislike to piecework is that payment upon that system is measured by the results of the labour, by its worth. It leaves a career open to the able and energetic workman to rise above his fellows, and that is a thing disliked by most leaders of Unions. Such a labourer stands on his own resources, he is eagerly engaged by his employer. He needs no help from others to obtain his fair rights. He is a standing protest against the policy pursued by Unions.

On this question of piecework Mr Brassey—who could speak with the highest authority—made a most emphatic declaration which, it is much to be hoped, that his audience at the Trades Union Congress have seriously pondered over. "It is because it is so important to inspire workmen with the hope of bettering their condition that I have always advocated the principle of payment by results. My father entertained the firmest convictions on this point. I know that many trades' unions object to it on the ground that payment by the piece leads to over-work and bad workmanship. The answer to this is that whatever may be the particular form of payment, whether it be by piecework, contract, gratuities for extra diligence, or per centage upon

profits, it is essentially necessary to give to the workman a personal motive for exertion."

Whether piecework is a system generally applicable is a question wholly distinct from its merits when applied. It is a matter which must be left to employers of labour to decide.

The objection made by Unions to overtime is the same in substance as that raised against piecework. It is the individual workman, acting for himself that is disliked; and this all the more if he is a non-unionist. Men working overtime are a weapon in the hands of employers wherewith to combat the Union.

(*e*.) That the number of apprentices taken by an employer shall be limited is a demand urged with great vehemence and pertinacity by many leaders of Unions. They seek to diminish competition against the labourers already engaged in a trade. But what is this but the institution of a monopoly? And no truth is more universally recognised, not only in political economy but in all the commercial world, that monopolies are most injurious to the public interest, to the welfare of the whole people. This is an undisguised attempt to raise wages artificially by reducing the number, not of the whole body of labourers, but of a chosen few at the expense of all the others. It creates a close labour corporation—very profitable to the men who belong to the Union, but unjust and full of loss to all who do not. They are excluded from the field of labour; and what they buy for their wants is made dearer. On what principle can a prohibition on the employer not to give teaching and work to as many labourers as his capital will permit, and a deprivation of the labourer's natural

rights and liberty to lend his services to any man who wishes to engage them and offers a reward which he is ready to accept, be justified, except that of a cruel desire to gratify personal selfishness by force? Restriction of apprentices attacks non-union workmen far more seriously than it does the employer. It is a direct declaration of war against their personal liberty and their right to govern their own conduct for themselves. "By restricting the number of apprentices," The *Financial Reformer* justly remarks: "Unionists deny to boys, even their own children, the opportunity of learning a trade and earning honest bread."

(*f.*) A minimum wage, securing comfort and respectability for every labourer, has been the fond and natural wish of many excellent and patriotic men. A fair day's wage for a fair day's work—the work and the wages to be provided by an employer—has been their cry, not only in behalf of the man who has given the work and ought to be properly rewarded, but also in behalf of the man who can find no employer. No man of right feeling could do otherwise than rejoice were such a consummation realised; but, unhappily, it is nothing more than a dream. It cannot be accomplished under the laws imposed on human life. The labourer to whom no master has work to give can be kept alive only by charity. If that charity is granted by the State he is supported by a tax levied on the community. He has no connection of any kind with wages: he belongs to the domain of a poor law.

But a minimum wage is demanded in a different sense by Unions, and by many philanthropic writers. If men are actually hired by an employer, he shall be bound to

conform himself to a standard of payment below which he shall never descend. "Our claim is simple," says "A Striker" in the "North American Review." "We demand fair wages. The reward of the workman shall never sink below what a man, and a member of a highly organised society, ought to receive." We may waive here the formidable and endless question—what is a fair wage? The answer would vary with every age, every country, every district, every trade, every kind of ideas, every form of feeling. But supposing the standard to have been settled, who is to provide these necessaries for every workman engaged? The employer, is the answer in the heart of every utterer of this sentiment, whether from his own sense of propriety, or under compulsion of law. But with what is the employer to bestow these indispensable comforts? Let him be contented with moderate profits, is the reply; and if his profits are excessive, the solution of the problem is not impossible. If every master in the kingdom is reaping too large profits, fair wages may be obtained by every workman. Masters declare that competition already extinguishes excess of profits, so severe and effective is its action. If these profits are only moderate, and yet every labourer must be brought up to the fitting standard of wages and the proper mode of living, how is it to be effected? By adding to the price of the goods, when made; that is the only resource, if the employer's capital is not to be eaten up and consumed. The process seems simple. The consumer must pay more for what he buys; he is the man who shall supply the workman with what is needed for decency and reasonable comfort. But unluckily dear goods, when made dear by a decree, not of

facts or of prosperous trade, but of arbitrary ideas, diminish buyers. Consumption is checked; fewer goods are asked for, and fewer require to be manufactured, and fewer workmen are wanted. The fund which the employer has now available for paying wages is smaller; he sells less; he must discharge some of his people. To those whom he employs he can allot the required standard of living; but what becomes of the remainder for whom he has no work? There is nothing for them but the workhouse.

What was the great strike at Merthyr but an avowed and determined effort to solve the problem of a minimum wage? The workmen pushed the experiment to its utmost extremity. They were told by the owners of the great mines and works that the state of the trade would not admit of the minimum wage demanded being granted. They refused to believe the word of the employers. They asked to inspect their books,—a demand which was very naturally refused. But the masters gave a distinct warning, that if the strike was pushed home, they would furnish an overwhelming, but for them most ruinous, test of the truth of their assertion that the business could not endure such a rate of wages. They answered that they would blow out their furnaces, rendering the employment of the labourers for many months thereby impossible. They would thereby inflict enormous and abiding loss on themselves, but they had no alternative. The workmen persevered to the bitter end. The furnaces were put out of blast; the works could not be set in movement again for a long period of time; wages were hopelessly extinguished altogether, and an enormous and most calamitous loss was inflicted on the

men, on the trade of a large district, on the dealers of every kind who supplied the wants of the workmen, and on their families. Stern, hard fact, the demonstration furnished by the immense injury which the employers felt compelled to bring upon themselves, if their capital was to be saved, shewed that the minimum wage so resolutely put to the test of crucial experiment was impossible.

(*g.*) The considerations urged above apply with equal force to the policy now proclaimed with so much vehemence by Mr Macdonald, Mr George Potter, and other leaders of Unions. There is over-production, they explain; hence the prices of the goods made sink, and a reduced wage becomes inevitable. Let the diminution of wages be accepted in the form of a day or two taken from work during the week; but let the days on which the work goes on be paid for at the previous rate of wages, unchanged. The standard of wages will remain intact, the principle of a high rate of remuneration will be uninjured. When better days come round, the old wage will assert itself, as formerly, over the whole week.

The expression over-production is here misleading. True, over-production occurs when more goods have been actually made and finished than the market can take off without a disastrous reduction of price; but there is no over-production in this case, because the policy advocated relates to goods not yet made.

There is a second and very grave form of over-production, which frequently generates very disastrous consequences. This over-production has been the main cause of the commercial depression which has weighed

with so much loss and suffering on the world. It has been the chief parent of the violent fluctuations in trade which have agitated so painfully the market for labour, and brought capitalists and labour into such lamentable collision. This over-production is the excessive creation of fixed capital, an unwarranted consumption of the wealth of the nation in the construction of an amount of machinery for producing, which the real state of trade did not call for or justify. In the years immediately preceding 1873, an immense and unwonted prosperity of trade was developed. Many industries were pushed forward with extraordinary vigour. Large profits were realised; the demand for labour gathered unexampled intensity; wages, ever rising, were poured forth in profusion, employers competing eagerly for labourers, and attracting them with rewards gladly and liberally given. It seemed as if trade had won a new and permanent extension, and that the wonderful progress it had exhibited in modern times was developing an expansion still more astonishing.

The impulse of this movement was felt most strongly in the iron and coal trades, above all in the construction of railways. In the colonies, in England, in many countries of the world, but most of all in America, capital was applied, it may be said, with passion to the making of these mighty and most productive instruments of national wealth. They were pushed into the wilderness, into regions where population was still scanty, and could not, for a long space of time, replace, from the working of the railways, the destruction of wealth which their construction had cost. Under this excitement, it was natural that

capitalists should multiply with energy the means for gathering and increasing the rich harvest of profit. Iron was in vehement demand. This acted powerfully on coals. Fresh mines were opened in every quarter; new mills rose from the ground; high prices were realised, and workmen were keenly enlisted by iron masters and owners of coal mines. Many branches of industry, connected with the supplying of the wants of masters and men, felt the movement onwards. Again more labourers asked for higher wages from willing givers; and in the end the erection of machinery for making goods, the investment of wealth in the creation of fixed capital, was carried out on a scale never witnessed before in the history of trade.

The extent to which inflation of fixed capital was carried is excellently illustrated in Mr Brassy, M.P.'s speech to the Trades Union Congress on September 20, 1877:—"Sir Henry Barron's report on Belgium in 1872 describes the condition of that country in a period of unexampled prosperity. A great rise in wages having occurred, the people became more reckless with their prosperity, and there was an actual decrease in the deposits in the savings banks. Pig-iron doubled in value in six months; but the prices of labour and materials rose to such exorbitant heights as to absorb the whole profits of the trade. The zinc, glass, and woollen industries have passed through crises of equal severity. In Germany, during the period of universal inflation, between 1871 and 1872, wages were advanced not less rapidly than in England. It was a period of immense profits all round. The make of iron was increased from 1,500,000 tons in 1871 to 2,250,000 tons in 1872. In the

prices of coal and pig-iron there was an advance of 100 per cent. The rise of wages in all branches of trade was 37 per cent. over the average of former years, and the prices of all the raw materials of industry were 50 per cent. higher. Unhappily this great prosperity brought about no permanent improvement in the condition of the industrial classes. High wages and the large profits of manufacturers caused a general rise in prices. The cost of living was increased, and money was most freely expended in intoxicating liquors."

But what was the process which was going on underneath the excitement? The creation of poverty, nothing less; the destruction of wealth in the construction of the machine for working which was not restored by fresh wealth produced. The nations were poorer, the stock of wealth was diminished, labourers had consumed vast quantities of food, clothing, and other things, whilst raising the factories, and laying-out the railways, and manufacturing their rails; and there was no fresh supply coming forth from the buildings and the iron lines to replace what was gone. The power of buying was soon largely reduced, for there were fewer goods wherewith to buy. Profits fell or were extinguished, there were largely diminished means to distribute in wages, labourers were in much slacker demand, wages sank, and a whole sea of troubles necessarily poured itself forth on paralysed and impoverished industry.

Now it is most important to remark that this excited and unwarranted destruction of wealth in excessive investments on fixed capital, under a deluded belief that this expansion of industry was solid and full of future

profit, was the doing of the capitalists. They never gave a thought to the deep truth, that the pushing of the construction of the instruments and tools of production, of factories, mines, railways, and buildings, beyond what the savings of the county warranted, was literally nothing else than destruction of wealth without restoration by fresh wealth. They are, so far, responsible for the terrible fluctuations in trade which have spread so much misery over both masters and men. In this grave matter the errors of the capitalists preceded those of the Unions; they developed the condition of industry which so troubled the market for labour. Justice demands that this fact should be asserted: whether the Unions have dealt wisely with the positions of capitalists and working-men thus generated is a separate question. What should be clearly seen, in the interest of both parties, is that capitalists can and have acted unintelligently and mischievously with the trade which they controlled, and to that extent they are distinctly answerable for many of the sufferings which followed; and their fault is the heavier in proportion as their higher education gave them greater facilities for discerning the path of prudence and good sense.

Both these forms of over-production express an excess of goods actually made; they end in heavy loss on the sales of the goods which do not pay for what they cost to produce. But the over-production of which the Unions speak regards the future. Produce less is the policy proclaimed by their leaders, go upon short time, work one or two days a week less, but insist on being paid for the days on which you work at your old rate of wages unreduced. The expression, diminution of labour

would describe the process more correctly. Its aim is to under-supply the market for the goods, to produce less than what buyers will take off if there was a fall in wages and a consequent reduction of the cost of production and of price. Fewer goods will be made, the purchasers too will be fewer, price still remaining too high; but the rate of wages will be unaltered, and when better times set in, the full week's work will be obtained at the old undiminished wage. But this policy is open to two fatal objections. In the first place it means a still heavier cost of production above the cost which is already greater than the market can bear. The Union leaders admit that by the advice they give the labourers must receive less pay at the end of the week. The necessity for submitting to this diminution of wages springs from the state of the market, in which the price realised for the goods will not repay the cost of making them. Consumers do not come forward in sufficient numbers to buy at a price which will prevent the business from being a losing concern. The policy recommended to the Unions says:—"Then work for a smaller number of purchasers only. There will be less to distribute as wages, but that is inevitable; but by this system you will keep up the price and the present rate of wages; as time rolls on you will get full work at the old pay." But this policy forgets the heavy increase of charge which a single day's stoppage of production inflicts on the employer. As was before shown, rent, interest on capital (whether his own or borrowed), superintendence, book-keeping, rates and taxes, the working of the engine to pump up the water, all cost as much as ever. This cost was borne by the full week's

work, and yet the business was conducted at a loss, and a reduction of the money paid to the labourers is acknowledged to be inevitable. Upon the proposed system of diminished production, this increase of charge falls on a smaller quantity of goods sold; it is consequently impossible but that a price which did not cover the expenses of the employer must be further increased. The necessary consequences would follow; a higher price for the goods, diminished sales, fewer men wanted, a smaller sum divided as wages, and a far heavier loss to the master on the working of the business. Who can gain by such a process, who can fail to lose?

And now what would be the results of the opposite method of proceeding? The rate of wages would be lowered, and the labourer would, at the week's end, receive less; this diminution of wages is common to both systems. But the price of the goods can be now reduced, for the cost of production is smaller. Fresh buyers come into the market who could not afford the former price. The goods are sold in larger quantities, the cost of production is met, and the business goes on Even if the employer earns no profit, still if he can escape loss, he continues on his operations in the hope of a sounder state of trade. The public is enriched with a larger stock of commodities; the power of buying is thereby increased. There is more exchange, a real enlargement of trade, and steady progress gained in overcoming the commercial depression. The production of more wealth is the only real cure for the waste which has destroyed it, and of the consequent diminution of the ability to buy.

Secondly, the policy of diminished production involves the false and impossible principle that a minimum of wages can be continuously enforced by an arbitrary decree of the labourers. Such a notion is absolutely inconsistent with the position in the world of labourers without capital. An article whose price is too high for the power of the purchaser to buy it will not be bought, and the employer will cease to produce if the labourer insists on that price being maintained. He will not go on with the business at a permanent loss, he will not ask for labourers to hire. Wages, like profits, are furnished by the buyers of the goods made and by them alone; if they cannot give the price demanded, there is an end both of profit and wages. A minimum of wages can be established in only one possible way—by a reduction of the numbers of the labourers down to that point where there are still purchasers at the price required for providing that minimum. If the labourers are in earnest in obtaining any given minimum, they must themselves see to the diminution of their numbers: nothing else will procure for them their end.

But in truth these feelings and ideas are the outcome of a deeply seated unconsciousness of the nature of wealth and of the source from which it is derived. It is a painful discovery to find that the mass of mankind do not understand the real character of the work from which they derive the means of maintaining their existence. They fail to place before their minds one very obvious yet pregnant truth, that all wealth, with exceptions too trifling to notice, consists of things made. The income of the wage-receiver and that of the millionaire

is alike created by labour. There is nothing else to divide and enjoy but what the labourers have produced. If the labourers work energetically and with good will, there will be many things for distribution and consumption amongst the people. If the labourers work lazily, and for unduly shortened periods, the result is as certain as that a dropped stone falls to the ground, that the population must stand on a lower level of living. But there is a second force which works powerfully on labour. What is made is consumed. It was created for that very purpose. There are three relations which consumption may bear towards production. Men may use up and enjoy all that they produce and no more. Their state will be stationary. Or, secondly, they may produce more things than they choose to destroy in enjoyment. They may save that excess and they will grow richer. They may build new factories, open fresh mines, construct additional railways, drain more fields, and bring land into higher cultivation by this creation of capital. They thus ensure a solid increase of wealth in the future. Or, thirdly, they may reverse the process and destroy more than they produce. Their consumption of wealth may be greater than its manufacture. The nation then degrades; it becomes poorer. It will have shorter supplies of all kinds for its people. Discomfort, want, and suffering spread over the country.

These results and their causes are so obvious that they may be justly called truisms, but Political Economy is a subject in which truisms abound, and are of the highest value. Yet it is this very third process which leaders of Unions avowedly and deliberately pursue.

They order as little as possible to be made by the workmen, and they demand that these workmen shall have the same quantity of commodities, and even more, to use up and consume. They command the degradation of labour, and claim the same or even higher remuneration for it. Let this policy be applied to every branch of industry, and who can deny that this is a wilful sinking into poverty. As Sir Edmund Beckett justly remarks, "It follows as clearly as a result of the multiplication table that if the world resolves to do only half as much work as it can without overtaxing men's strength, there will only be half as much wealth produced as there might be, and therefore only half as much to spend on hiring fresh labour. And so there is an increasing population wanting food and clothing and houses, and those who can get them are mostly eating and drinking and using as much as they can, and yet doing only half as much as they could do and used to do for man to procure it. It is evident what must be the ultimate and general consequence of that, however it may be postponed or concealed in certain places, or for a time." To insist on high wages for little work, and by their help to empty the shops whose stores are not replenished is to march to national distress and to involve the labourers themselves who practise this policy in ruin.

The Unionists, it cannot be doubted, are in part blinded by money. They receive their wages in money. They imagine that the richer classes have always plenty of money, and that all they have to do is to make this money converge into their own pockets. They stop in thought at money; they analyse no further. It does

not occur to them that whether times are good or bad, wages high or low, the quantity of money in the country is always much the same. Still less do they perceive that money is not the real thing which buys, and that no one can procure money except he first purchases it with goods. The things which buy and give wages are always the articles produced; nothing else purchases but that. The wage which is placed in the hands of the labourer in the shape of money was obtained in every case by goods made and sold. Hence it is perfectly certain that if the stock of things made is smaller there will be less wherewith to buy money to be distributed as wages; there will be fewer things to eat, drink, and enjoy for the whole population. Thus the policy which orders workmen to produce little or inferior work and demands the same quantity of things to consume for the idle and inferior workman as for the efficient labourer makes the stock of wealth smaller, and directly attacks the well-being of every class in the community.

(*h.*) One rule more, laid down by many Unions, remains to be noticed. They refuse to work with non-union men. They claim a monopoly of employment for members of their Union. An independent man, exercising his natural right to freedom in contracting to labour for an employer, and performing his contract in an honest and manly spirit, is unendurable to these Unionists. He takes no heed of the commands of the Union leaders; he works vigorously by the side of men ordered to dawdle. Such men prevent the factory and the mine from belonging to the Union. They refuse to be dictated to; they enter the employer's business on

the natural basis of freedom of contract. The fundamental principle of Unions is thus violated. Their orders are not obeyed over the works. A man who thus bargains directly with his employer is called a black. Every kind of abuse and intimidation is applied to get rid of him. If he persists in standing on his independence, his Unionist fellow-workmen strike, compulsion being brought upon the employer to send away every workman who will not enrol himself in the Union and obey its commands. Some years ago, the labourers in a coal mine belonging to Lord Fitzwilliam refused to work with a non-unionist, and came out of the mine to compel the proprietor to expel the free workman. Lord Fitzwilliam resisted the dictation of the Union, and refused to part with the independent labourer. He closed the mine. For this act he was censured in many quarters. He was charged with an arbitrary exercise of the rights of property. The mine was proclaimed to be a source of wealth which the public was entitled to demand should be worked for the general good. Such a judgment was erroneous and unjust. Lord Fitzwilliam, on the contrary, merited admiration for an act of high and intelligent patriotism. He gave up a large income in order to uphold the vital principle of liberty for every man to dispose of his person and his labour.

Freedom of opinion and judgment is itself the only foundation of the right of Unions to act at all. As Mr Gladstone remarked in the case of the Aston Hall Colliery in 1874, "Lord Fitzwilliam would have committed a mean and dishonourable act if he had turned out that one man. Instead of doing that he

performed a noble deed in behalf of the whole nation, and most of all in behalf of the working classes themselves. He repelled a tyranny as cruel as it was irresponsible—a tyranny which if successful would have converted the workmen of England into slaves. To subject the labourers of a nation to the absolute and irresponsible rule of leaders of Unions would be the worst and most disastrous form which despotism could assume." With reference to the Aston Hall Colliery case, Mr Gladstone adds: "But these men, though there were only four, had as good a right to form an opinion as to the value of their labour that the majority had, and if we have come in this country to the day when the majority shall endeavour to put down the minority and refuse freedom of opinion to those who are fewer in numbers, in my opinion the country will be one of which I should say the sooner we get out of it the better." *

(*i.*) We come now to the machinery by which labourers in combination endeavour to accomplish their ends.

* *The Engineer* mentions a case which gives a striking instance of the course which Union leaders will sometimes take.

"The men were paid off and at a considerable saving to the firm, the Chillington Iron Company, Wolverhampton. A neighbouring boiler-maker undertook to do the work by contract. Unable to get work one set of the discharged men risked the Union and offering themselves for re-engagement on their employers' terms were taken on again. Thereupon the district committee informs the delinquents that they are fined £2, 10s. each, 10s. 'for using your influence to obtain employment for a non-member, and £2 for going to work against the council's orders, otherwise than on the nine hours system.' To this polite intimation the following is annexed :—'And in addition to this you are requested to give in your notice to leave the shop as soon as you resume work. Should you refuse to do so you will be expelled the society.'"

The men would thus be stripped of all the subscriptions which they had paid, probably for years, to the Union as a benefit society. What tyrannical despot could surpass the spirit of such conduct?

The chief instrument is the organisation called a Trades Union supported by funds contributed by members and led by an executive committee. This committee is the guide of its policy, from which there is an appeal, rarely exercised, to the vote of all the members. The Union is not an association formed for the purpose of controlling wages, and regulating the relations between employers and workmen. It has an entirely different origin, and this fact endows it with large resources derived from subscriptions constantly streaming in for objects unconnected with trade. A Union is in theory a benefit society, instituted to provide help in sickness or under accidents, or in old age, or for burial. The application of these subscriptions to the support of contests against employers seems a perversion of money given for one purpose to another and wholly different one which admits of no justification. It places a great power of coercion in the hands of Union leaders which is often oppressively used. Labourers who are desirous of remaining at work on the terms offered by employers are often driven into strikes with their attendant sufferings against their will, because otherwise they would be expelled from the society, and thereby forfeit those claims for allowances which they had bought with a long course of subscriptions. I am unable to understand how the Legislature has abstained from applying a principle to these societies which it has enforced on Joint Stock companies for the protection of their shareholders. It forbids the funds of the company to be applied to any other objects that those covered by the articles of association; money subscribed for one purpose cannot be appropriated to another. Why should

not the same just and natural rule be imposed on the application of the funds against principle seized upon by Unions? Why should men be deprived of the liberty of working as they please by the seizure of their own money, which they gave for a distinct and admitted object? The wrong committed is all the more to be deprecated in that it attacks the one virtue which it is of the highest social and national importance to develop in the working classes—thrift and saving. By all means let men be free to subscribe to Trade Unions, and let those funds be placed, if they so choose, at the disposal of their leaders; but money subscribed for other purposes, so nationally important, should be sacred in the eyes of the law. "Leave your work and come out on strike and idleness, with scanty fare and much misery to your families, or we shall take away from you benefits which you have been paying for during many years," is language which, as it seems to me, the Legislature is called upon to forbid peremptorily to be addressed to free men.

In demanding a rise of wages or resisting those proposed by the employers, the Unions occasionally consent to refer the dispute to a Board of Conciliation, a kind of friendly body interposed between the disputants, or to a Board of Arbitration, composed of equal numbers of representatives of both the parties, with an independent umpire, who is the real arbitrator. Unfortunately, it often happens that his verdict is repudiated by the men; hence this preliminary diplomacy has often a strong flavour of unreality. And not only so, but as a writer on the "Three Extreme Ideals" in the "Quarterly" has remarked, "The artisan classes of this

country think that Trade Unions or arbitration can supply the place of the directing mind in some of the most important points connected with the manufacturing business: a profound mistake. Trade Unions and arbitration between them are doing very much to destroy that intelligence which ought to direct the commerce and manufactures of the country."

What is relied upon is battle, and its great weapon the strike. Yet before having recourse to war, it would be well if labourers would reflect on the extremely moderate rate of reward which capital is proved to obtain in England in the form of interest on English investments. "The fact," Mr Brassey points out, "that debenture stocks bearing only 4 per cent. interest can be issued by our railway companies at the rate of £16,000,000 a year must be a positive proof to the working classes that they are not overcharged for the use of capital. More conclusive evidence yet may be given of this fact. The Bank rate of interest for each year since 1867 has been as follows: $2\frac{1}{2}$, $2\frac{1}{4}$, $3\frac{1}{4}$, $3\frac{1}{8}$, $2\frac{7}{8}$, $4\frac{7}{8}$, $4\frac{3}{4}$, $3\frac{3}{4}$, $3\frac{1}{4}$, and $2\frac{5}{8}$ per cent. If the secure profits of business had been greatly in excess of the Bank-rate, there would have been less money on deposit, and higher rates would have been charged for banking accommodation." Such instructive facts furnish a heavy presumption against the justifiableness of so violent a proceeding as a strike.

Unhappily for England's welfare, the strike always underlies discussions between masters and men. The employers, on their side, require an arm wherewith to fight; and that arm is the lock-out. The Union leaders order every unionist to cease working; the lock-out closes all the workshops and factories in the district. It is com-

monly called forth by a policy frequently adopted by the Union, of withdrawing the workmen from a particular firm, who are then supported by contributions from the Unionists still allowed to work elsewhere. Now war and battle are obviously coarse and violent methods for trying to ascertain what is the true value of labour in the market. There is no investigation or reasoning in such a process; it is a pure trial of strength. Every labourer undoubtedly is entitled not to work when he so chooses; but one thing he cannot do, even in combination with all his fellow-workmen: they cannot alter their real position in the world. No struggle or strike can leave them other than men who must obtain the means of support from employers who possess the capital which is to feed and clothe them, and who invest that capital in a business with the one, sole, and necessary motive of earning an adequate profit from it for themselves. To try to force down profit to a lower level than it will bear can have no other issue for the Unionists than surrender or emigration. No combination of men can alter the essence of all trade or override its inexorable laws. No strike can force up wages when trade is bad and labourers are in excess and not wanted; nor can a lock-out trample down wages when business is thriving, and labourers are scarce for employers eager to win profits.

Besides the suffering which a war of strikes inflicts on the combatants, it creates other wrongs of the most grievous kinds. We have seen how it compels many of the Unionists themselves to give up work and wages against their own inclination; but there is also the further hardship that strikes have a tendency to deprive

many innocent labourers, who work in connection with the strikers, of their livelihood. It is one of the most distinguishing characteristics of modern industry that many groups of separate workmen contribute their services to the common result, the article made. A great strike in the coal mines may bring thousands of iron-workers, ship-builders,—a strike of masons, many hodmen and carpenters,—a strike of bolt-makers many platelayers, to destitution. Such a result ought to awaken a deep sense of responsibility in Union leaders who order a strike. The injury propagates itself over the small shopkeepers, who are stripped of customers and are unable to procure payment of their shop-debts. The ruin spreads itself over the population of a large district, as was recently seen in South Wales. And then there is the loss inflicted on the whole people by the serious diminution of its capital. The strikers and their families are kept alive; they consume wealth and do not replace it by fresh wealth made; and this impoverishing process may go on for long periods of time.

The evil consequences of a strike may take a yet wider range. It may drive away the trade altogether from the locality. The temper of the strikers may be such as to extinguish all hope in the employers of carrying on their business with that peace and confidence which are essential to success. A strike not many years ago transferred the business of shipbuilding from the Thames to other quarters; and ominous sounds were heard of a revival of that business in America, created by the war of the shipwrights against the shipbuilders of the Clyde. It is not merely the men who

struck who were injured by such an event; the blow falls, with great severity of suffering, on the population of the whole district.

To these calamitous occurrences must be added refusals to work with Non-Unionists, and such violent deeds as picketing and other outrages committed upon men who do absolutely nothing more than practise that liberty on which the Unionists take their stand—the right of free men of affixing their own terms on their own labour. Such acts are the atrocities which are natural to all war, but which make every right-minded man regard war as a terrible evil. Is war the natural, the only way of determining the true value of an article for sale in a market? Must all these sufferings and wrongs be voluntarily incurred or unfeelingly inflicted on the sole possible plea of procuring for every labourer the wages which are his due in the actual circumstances of the trade to which he belongs?

The world has seen, with pain, striking pushed in the United States to civil war, to seizure of railways by armed bodies of workmen, and even to real battle, with guns, fighting, and slaughter. The following remarks from "The Public" of New York of August 2, 1877, express with just severity the moral judgment to be passed on such actions:—

"Thus the whole question narrows itself to this: Are other men able and willing to perform the service at the lower wages offered? If not, the fireman or the brakesman is warranted in demanding his price. If so, in demanding more money from society than his service is actually worth, he is merely trying to plunder society. And if his demand, thus in excess of the cost

at which others are ready to render the same service, is enforced by threats or force, he is no longer a railroad man, but a highwayman, whose mode of living is to present the revolver to surprised travellers, and to cry, 'Stand and deliver.'

"Now the main question, and, as we see, the only question affecting the justice of the striker has been settled by the strikers themselves, and in the most conclusive manner. They proved that other men were ready to take their places, and that they knew it when they resorted to force. If there had been any doubt in their minds, they would not have challenged all civilised society by defiance of law. At the outset, they were convinced that others were ready, or they would not have affronted public opinion by declaring in the language of resolutions adopted at several places, 'but we shall not let other men take our places.' Exactly the same fatal admission was made, in deeds more emphatic than any words, when new men were threatened with death, or pulled from trains, or met with stones or bullets. 'Other men shall not have our places' was the universal language of the strike. But it everywhere implied an absolute consciousness that other men were ready and willing.

"This question settled beyond dispute by the acts of the strikers themselves, what follows? They were trying to extort wages to which, in the present state of the labour market, they were not entitled. They were trying, in short, to take something which did not belong to them from the whole community and from other labourers. Calling the thing fine names did not change its nature. Loud talk about the rights of labour, in this

connection is merely impudent and fraudulent. Labour has no right to rob other labour. Nobody has any business to drive another unemployed and starving man from work because he will not take the job himself. Every man who thinks his work worth more than is offered has a right to go elsewhere with it, as a capitalist goes elsewhere when some one will not pay the price demanded for his stock. But the capitalist who lifts his cudgel or levels his revolver to frighten or force somebody to buying his stock is a thief. What are they who try to frighten or force any one to buy their labour at their own price?"

To this we may add the vivid exclamation of the "Financial Reformer" as to what takes place in England also.

"The authority, despotic and irresponsible, of the committees is something astounding, and we must say, simply dreadful. Imagine a man from Northumberland going down into Glamorganshire, and ordering some sixty thousand well paid and contented workers to strike because further demands are refused, and condemning a whole county to suffer starvation and pauperism, to assert the power and dignity of some Miners' Union in the North, and being obeyed too! Why, if Queen and Parliament attempted such monstrous tyranny, it would raise a rebellion."

And now, what is the success recorded of the strike method of bargaining? Long experience and the stern facts of history reply that the defeats of strikes are incomparably more numerous than their victories, that they fail in most cases to determine the rate of wages which, not the greed of employers, but the state of

trade will bear. The judgment of reflecting men, whose good will towards the working class is beyond dispute, declares that strikes do not, for the most part, win the objects for which recourse has been had to them. No other result could have been expected. Strikes are the acts of ignorant, suspicious, and hostile men. Such a mood of mind is not likely to be accompanied by a thoughtful and intelligent examination of the factors of the problem. Such men prefer battle. They know that they lack the information which alone can lead them to the right conclusion. In their distrust of their employers, they refuse to seek from them such knowledge as they can give, or to believe in it when frankly given. To such a length is this temper of mind carried, that even the clearest proof that the employers are unable to continue the business on the wages demanded makes no impression on their minds or conduct. In the great strike of South Wales, as was remarked above, the workmen were distinctly warned that if they refused to accept the wages offered the furnaces would be thrown out of blast. Such a menace would prevent the works from being resumed for months after the restoration of peace, and would inflict enormous loss on the employers. How could the masters more unmistakeably show that the business must cease if the Unionists persisted in their demand? They refused to yield even to such evidence, and fearful sufferings fell on a large population. After such an example of the management of the labour market by Unions, who will say that a strike is the proper method for ascertaining the wage which the labourer is entitled to receive, and the master can afford and is bound to give?

If we wish to learn what strikes cost, let us listen to Professor Leone Levi. "In 1834 the workmen in the Staffordshire potteries struck for an advance of wages, and after fifteen weeks the masters yielded. Elated by their success, however, the men thought that they could demand more, and so two years after they struck for a diminution in the hours of labour and a restriction in the number of apprentices. But the masters were not so ready now to make concessions. They united together, and they decided to suspend their manufacture whenever the workmen struck to any master. The strike was an utter failure, though it cost the men £180,000. What was gained on the previous occasion was more than lost two years after. In 1853 a great strike took place at Preston for higher wages which were unconditionally demanded. The masters made some concessions, but these were indignantly refused. So the mills were closed, 18,000 hands were rendered inoperative, and after a lengthened struggle, in which the men spent £100,000, submission became unavoidable. A few strikes have proved successful, but many more have utterly failed. Not many years ago seven distinct strikes took place in Lancashire; every one of them was unsuccessful. They involved the loss of employment to 38,000 hands. They lasted a long time, one thirty weeks, another fifty weeks, and together they produced a loss in wages of £757,000, and if you add to that sum the profit on capital and the subscriptions at a fourth of the wages, the total loss exceeded £1,000,000. In the recent unhappy strike in South Wales nearly 12,000 workers stood out against a reduction of wages, and upwards of £3,000,000 of wages were actually lost in

the contest. Did they succeed? far from it. They refused to accept a reduction of ten per cent., yet eventually they were compelled by the force of events to re-enter work at a reduction of $12\frac{1}{2}$ per cent."

"Supposing, however, that you do succeed in the contest. Remember that you will have to work a long time at the higher wages before you can recover what you have lost by forfeiting the entire amount week by week. Suppose you strike for five shillings more wages, or for one shilling more in every pound, Dr Watt made a calculation to shew in how long a time you will get back what you had before. A week is two per cent. of a working year, or two per cent. of the wages of one year. Let the strike succeed, and you will require $1\frac{3}{5}$ year, at the increased rate, to make up for a month's wages lost; $3\frac{1}{5}$ years to make up for two months' wages lost; $4\frac{4}{5}$ years to make up for three months' wages lost; $9\frac{3}{5}$ years to make up for six months' wages lost; and 20 years to make up for twelve months' wages lost."

Another more recent example of the same fearful loss and consequent suffering to thousands of men and their families is furnished by the late Clyde strike and lock-out. "The chairman of the Greenock Provident Bank stated at a meeting of the share holders that £312,000 had been lost in wages during the strike and lock-out, while £156,000 had been spent by the Trades Unions to support the men." Yet the strike was an entire failure. In an elaborate judgment, the arbitrator, Lord Moncreiff, gave his award against the strikers.

When a successful strike entails such sacrifices, what

must be thought of the many unsuccessful ones, and of the policy of making them the machinery for discovering the right rate of wage?

On the other hand it must not be supposed that the masters are always in the right. A lock-out, or a closing of all the works in the district, is a natural and justifiable act, when the employers are attacked in detail, the men at one factory or two striking, and being maintained by subscriptions from the others who remain at work. Such strategy on the part of the Unionists naturally calls forth a counter-move. But the successful strikes, few though they be, and the numerous concessions obtained from masters by the threat of a strike, sufficiently establish that at times the men were justified in arguing that the profits of the business would bear a rise of wages. There is moreover a special irritant in the nature of many trades of which farming exhibits the most familiar example. A fine season will bring a plentiful harvest and handsome profit; excess of rain may make the year's working result in a loss. The farmer must conduct his business on the basis of an average; so must many a manufacturer. They are not likely to meet their workmen in the best of humours, when the principle is pressed upon them rigorously that a rise of profit must be followed by an immediate rise of wages. This takes away from them the surplus of the good time which is needed to meet the deficiency of the bad; a fair average profit thus becomes impossible. They are involved in a loss which the labourers in the hour of prosperity fail to perceive and to acknowledge. The employer resists, and the strike follows, and both sides feel that a distinct wrong has been done them by the other.

But if war and strikes are an unsatisfactory method of ascertaining the just rate of wages, what remedy can be devised for dealing with those complications in the sale of labour which affect so deeply the interests of the whole nation? It has been the hope of many able men that co-operation would provide the much desired solution. I regret sincerely that I am unable to partake in this hope. One form of co-operation has proved eminently successful. In many localities, working men in large numbers have made small contributions of capital for co-operative stores, at which the contributors supply their wants with commodities of excellent quality at very moderate, or rather at wholesale prices. But such stores merely suppress one intermediate dealer between producers and consumers. They get rid of the shopkeeper and of the profit which he must necessarily charge. The owners of the store are assured purchasers of the goods sold, for the store is nothing but an agency for collecting articles that are wanted and must be bought from the makers direct, or from the great wholesale dealers. This is a very easy matter, requiring no exceptional skill, and exposed to very small risk; for the articles dealt in are in daily use by the co-operators.

Co-operation in production is a radically different thing; a large capital is required in almost every case. The risks at times are unavoidably large, and the co-operators must be able to bear them. Great skill, judgment, energy, and zeal, are necessary in the management of the business for success, and managers possessed of these qualities and to be relied upon for their constant application to its guidance are most

difficult to find. Managers cannot be expected to be a match for the incessant vigilance, the ungrudging devotion of thought and time, the eagerness to introduce improvements, the willingness to encounter the expense which they will cost, which are every day brought to bear on business by men stimulated by the profound feeling that its responsibilities and its rewards are their own. "The knowledge that he will gain what is gained, and that he will lose what is lost, is essential to the temper of the man of business," most justly remarks Professor Walker. The labouring classes as yet have exhibited no sign of accumulating any important amount of capital by saving; and when one of them is conscious of ability, and is resolved to exert it, and rises by his efforts and gradually acquires property, his eyes are directed to becoming himself an employer, to his owning a business and building up a fortune. There are many labouring men in England who yearly achieve this success, but very few of them show any disposition to associate with men still labourers in conducting a common enterprise as joint-owners. The experiment of giving labourers a per centage on the profits of the business has been tried with occasional success, but as a general system it is shipwrecked on the fatal difficulty, that employers discover that they cannot afford to grant shares of profit to men who are incapable of bearing their shares of the losses. Viewed as a general system, co-operation does not appear to me to offer any solid promise of becoming the foundation of the relations of capital to labour.

There remains then the one true and reliable resource —the establishment of mutual trust and good-will

between the buyers and the sellers in the great market of labour. Both need to perceive thoroughly the real harmony of their several interests, and to feel resolved to give effect to that harmony. There are considerable difficulties against the accomplishment of this result, but they are not insuperable. Justice demands that it should be acknowledged that in modern trade employers have made a greater advance in performing the part which belongs to them than workmen. They are better educated, and, as a class, more intelligent. They are steadily falling more and more under the force of severe competition, and this renders them more quick in recognising the value to them of good workmen than the workmen are in prizing a good master. The great reluctance of masters to parting with a body of valuable labourers, even when not only no profit is being earned, but where actual loss is incurred, is notorious. It cannot be said with truth of them generally, that they try to beat down wages, or that they are unwilling to pay well for efficient work when trade is steady; trouble begins only when fluctuations in the business arise. On the other hand, the admirable manner with which the workmen of the north of England bore the distress of the cotton famine furnishes a striking illustration of the good feeling and good sense of which the British workman is capable, when he thoroughly understands the nature of the situation in which he finds himself. We are thus led to perceive the imperative want of the present hour. Machinery is sorely needed to help the working classes to understand the real character of the work on which they spend their lives. The subject is not above their powers of

comprehension, very far indeed from it. Industry and trade, their nature and their laws, are matters which require only simple and clear discussion to be understood by ordinary workmen. But they must not be told that they must study Political Economy: the scientific jargon with which it has been smothered has ruined its authority for the labouring classes and for many others also. But the natural processes of which it speaks can be explained in language which the intelligence of an uneducated man can be brought readily to understand. From this quarter must resources be sought wherewith to combat the sophistry, the mischievous theories of leaders of Unions.

When such a foundation has been laid, the growth of such instruments for examining the ever-varying conditions of trade as boards of conciliation and arbitration, or other similar institutions, may be looked forward to with hope. They are difficult to develope into efficient working at the present day, because the minds of labourers are too unenlightened, and consequently lie at the mercy of the plausible but perverse doctrines of men who feel small inclination to master the really simple matters on which they claim to guide their Unions. A little plain schooling, if only they can be persuaded to take to it, is the greatest want of the working classes.

An appeal must be made to their intelligence; they need to be taught to perceive that there is something more salutary for their own abiding interests than perpetual recourse to the weapon of force,—the strike. The task is not a hopeless one. The facts of the situation, I repeat, lie in a small compass, and they are

capable of being easily understood. To provide a machinery which shall enable both parties to comprehend the realities of their respective positions in the world, and upon such knowledge to build up mutual confidence, mutual desire to act honestly, each by the other, as the surest way of promoting their own particular advantage, is the highest and most urgent call upon the civilisation of our age. Such good-will is not altogether unknown in the world. It has frequently been found in many a farmer and his labourers. His men often give a zealous day's work for a fair day's wage, because they have thoroughly perceived that from the crops alone their own reward must come, and the farmer is liberal and acts well by his men. On many a farm at the present hour, under the influence of more skill and capital applied to the industry and ampler wages willingly given for better work, this friendly relation flourishes in full vigour. The enormous masses of the artizans oppose greater difficulties to the establishment of such a relation between masters and men. But there dwells in the breast of the English artizan a power of intelligence on which sure reliance may be placed, if only it is brought fairly into action. Frankness and sincerity are the paramount conditions for the substitution of respect and confidence for war. The masters must disclose all practicable information as to the state of the business, and the men be willing to accept the consequences involved in that state. I am unwilling to believe that human nature is incapable of dealing with an inevitable problem of such transcendant importance.

The manner in which the strike of shipbuilders on

the Clyde was settled warrants the hope that arbitration may achieve greater progress, as also it furnishes a model of the method to be pursued. An arbitrator capable of inspiring entire confidence on both sides was chosen; the facts of the situation were distinctly admitted and laid before Lord Moncreiff for judgment. On this excellent foundation he pronounced an elaborately reasoned and, as to the manner of dealing with the problem, truly admirable award. The verdict went against the strikers; they accepted it in a most praiseworthy spirit; and thus, a long and ruinous struggle was brought to a peaceful end.

It is not an illusion, we may reasonably hope, to believe that in this great sphere of action, it is open to the ministers of religion to render an invaluable service to their country. They can approach the labouring classes more closely than any other body of men can. They can win their confidence; be treated as friendly advisers, sincerely disposed to obtain for the workmen their highest due. Plain and oft-repeated explanations of the nature of all industry, and of the facts on which it reposes, could not fail to tell on the minds of many hearers. None can show with greater effect that employers and labourers are joint, and ought to be harmonious co-operators in one common work. When investigation has furnished the requisite evidence, the clergy may point out to the grasping capitalist that he is injuring himself by injuring his men. Still more, they can proclaim the great name of justice. On the other hand they can make the workmen feel that the business is being conducted at a loss, and that this is a proceeding which must come to an end. They can inspire the

assurance—upon reproducing the requisite proof—that the refusal of offered wages will transfer the business to foreign competitors, or drive away capital to more profitable investment in another region. They can argue out with the men the policy counselled by their Union leaders, and determine together with them where it is sound and where it is unsound. Perseverance in this good work might place society on a new and more solid basis.

But the clergy need to be cautioned against a temptation which would beset their path in the performance of this high service. They must take care not to be led astray by philanthropy. Charity and philanthropy are amongst the noblest virtues; let meet honour be rendered them heartily in their proper spheres. But philanthropy is not, and cannot be the basis of industrial life on earth; for, if made supreme arbiter of the relations of trade, philanthropy would speedily mean a command to employers to maintain labourers out of their own property. In this respect Political Economy is often thought to be cruel, especially by the clergy; there seems to be a harshness in its teaching which is revolting to the feeling of humanity. But Political Economy does not invent new laws of human nature. It interprets only laws which exist. If the interpretation is mistaken then let Political Economy be refuted and rebuked; but if it is true to inexorable facts, no remonstrances on the ground of humanity can be of any avail. Philanthropy cannot avert an Indian famine, or a failure of cotton, or foreign competition; nor can it persuade the owners of property to support hosts of labourers upon charity, or to go on with a business which brings nothing but loss.

What a field for the healing influence of Christian ministers does Mr Skey lay open in his address to the Church Congress at Croydon: "He did not deny the right of the working men to combine for their mutual benefit and protection, but trade unionism, as it was, and as it might be, were two very different things. He would mention one instance. In May 1874, there was a strike amongst Warwickshire colliers—his men among them. He did all in his power to prevent the strike. He called upon his men to meet him and discuss the matter, and convened them by advertisement; but the bellman was sent round to order the men not to attend, and the Union succeeded in keeping every man away. The strike followed and caused the utmost suffering and deprivation among the men and their families." Here was the very opportunity, the call for the mediation and remonstrance of a thoroughly neutral and impartial friend against conduct so irrational and so disastrous to the interests of the very men who practised it.

As Mr Denny well remarks: "The searching inquisition into the costs of production ultimately, in masses or individually, sweeps away the unsuitable producer, manufacturer, or workman. We may fume as we please, and rail against the inflexible action of this kind of power, we are merely beating the air, and beating it uselessly. We may cry out against the barrenness and hardness of Political Economy, we shall cry in vain. We shall awake to find ourselves under the influence of law, and law as irresistible in the long run as the law of physical nature. Indeed Political Economy is valuable only as a recognition of this." The law of human

nature cannot be talked away. Philanthropy was no excuse for a poor law which discouraged human beings from relying on their ownselves for protection, and lowered their self-respect and their manliness by placing at the bottom of their minds the feeling that there was always the poor rate to fall back upon. The career here open to ministers of religion is, in the first place, to master firmly for themselves the unalterable laws which God has imposed on human life; and then, secondly, to teach the working classes clearly to apprehend and recognise these unchangeable truths. They will thus train them so to guide their conduct as to guard against dangers which are imbedded in the constitution of the universe. An intelligent conformity to the laws of nature is a source, not of wrong to particular classes, but of happiness to all. The Christian ministers are capable of performing invaluable services in this region; and this is a call which, in the words of a great preacher, should make them cry: "Woe is me, for I have seen the God of hosts." They can help to develope and sustain friendly feeling between employer and labourer, and under the fluctuations of trade so to bring them together in kindly counsel, as to convince both sides that justice in the actual state of the business has been attained by both parties. To perform this great work is a mission of the greatest value to the moral and material welfare of society, and worthy of the high calling of the Christian clergyman.

CHAPTER IX.

FREE TRADE.

THE circumstances of the world around us—in Germany, in France, in the United States, in Canada, in most of the British Colonies, countries full of men of high intelligence and ability—constitute a strong call for the re-stating and re-arguing of the principles of Free Trade. This is a startling, indeed it may be said, a humiliating fact. Free Trade is the one subject in Political Economy which is susceptible of complete demonstration. The exposition of the argument is one of the chief triumphs of Adam Smith's "Wealth of Nations;" it is the most pre-eminent glory which distinguishes his immortal work. Intellectual writers of all countries have enforced and illustrated this cardinal truth with an ability which has never been surpassed. The contest passed long ago from the world of ideas to the world of facts. Free Trade has been the battle-field of the fiercest political strife. Every impulse which interest or passion could generate has been brought to bear on its discussion. The most distinguished statesmen of our time have taken the most active part in the struggle. The highest and most enduring political reputations have been won in this arena. Mighty interests, strong in wealth and power, have fought against Free Trade with the peculiar

* This chapter is largely indebted to an article in the "Contemporary Review" of the year 1870.

energy which belongs to free countries. Every position has been defended to the utmost; every possible resistance offered to the acknowledgment of the new truth; every statement has been sifted by keen opponents; every argument tested to the utmost; and then, after a war of many years, victory crowned the struggle in England amidst almost universal acknowledgment of the truth of the principle.

Yet now, in the latter part of the nineteenth century, whilst so many of the champions who were engaged in this fierce discussion still survive to bear witness to the crushing defeat which error sustained, we are again summoned, not by the brilliant fallacies of some clear thinker, but by the renewed vigour and progress of protection in the practical world, to re-argue the first principles of Free Trade. One is tempted to feel something of that mortification which a mathematician would experience if he were compelled to demonstrate anew the principles of the multiplication table. However, the evil is too serious and the duty to guard the welfare of the greatest of practical truths too urgent, to allow us to linger over our feelings. Protection seems to be indestructible—a weed that no intellectual or social culture can root up—a principle that is a part of human nature itself. The selfishness of individual interests is a force that ever wars on the public good, and can be kept under only by incessant exposure. It compels the truth to be ever re-asserted. This is our task now; and if it imposes on us the necessity of repeating ancient arguments, let us realise the feeling that the work we are engaged in is not on that account the less fresh or the less important.

It is essential at the outset to define the meaning of the expression, Free Trade. Great mistakes are caused, and many fallacious reasonings pleaded through a want of a careful distinction of the separate and distinct senses in which the phrase may be used. It may, in the first place, denote a principle which has gained great strength in modern times, to the large advantage of the world—trade left to itself to conduct its own operations—the absence of interference and restriction on the part of governments—the individual energies and intelligence of the traders allowed, in free liberty, to carry on the production and distribution of wealth. But this is not the sense in which the words are used here.

Then, again, the expression Free Trade has been applied to a demand for the abolition of custom-houses as interposing impediments to the free movements of goods. This application of the expression Free Trade to the suppression of customs duties is very objectionable and misleading. It is a fallacious appeal to a great truth belonging to a wholly different subject in order to procure the suppression of a particular form of indirect taxation. Those who write and speak in this manner feel that Free Trade denotes, for most minds, a proved and unchallengeable truth; and they thus acquire an advantage in argument to which they are not entitled. The abolition of customs may be a proper measure or it may not; but clearly it has nothing to do with the Free Trade of Adam Smith.

What, then, is the Free Trade of this great man and of Political Economy? It is the contradiction of Protection. It came into use as condemning the policy of Protection by the proclamation of its opposite. Its

meaning, therefore, must be sought from the sense affixed to Protection. Protection affirms the policy of differences of duties on the same goods. It inquires into the geographical and national origin of these goods; and then, according as they were produced abroad or at home, it imposes different rates of taxation on them, or exempts them from taxation altogether. Free Trade is the direct contradictory of this principle. It asks no question as to where the goods were made; the same goods must be treated all alike—is its doctrine. If a duty is charged, it levies it alike on those made at home as well as on those made abroad; if it exempts the domestic, it equally exempts the foreign products. It is with this principle alone that we are here concerned.

Which, then, is the correct policy, Free Trade or Protection? In order to reach the true answer to this question, it is very important to discuss it on the hypothesis that neither of the two policies has as yet been adopted. Practically and historically it has seldom, if ever, been debated on this basis. In almost every instance, Free Trade has been the assailant of a protection already established; the rarer but most startlingly increasing procedure is that of Protection assaulting and overthrowing a pre-existing Free Trade. When Protection has previously occupied the ground, Free Trade has had to encounter the formidable difficulty of interfering with interests, often vast, both of capital and labour, reared up under Protection, and which its success might seriously compromise or even destroy altogether. This very difficulty has often turned aside statesmen, whose convictions were already won to Free Trade, from the political danger of dis-

turbing industries engaging a considerable part of the population. It is most essential, therefore, to understand clearly that the existence of these interests is a matter wholly foreign to the truth or falsehood of Free Trade.

There are two questions here which belong to two different provinces, and must be carried to two different tribunals for judgment. The one belongs to the department of the Political Economist, the other to that of the practical statesman. One is a problem of knowledge, the other of politics. The truth or falsehood of the doctrine is in no way affected by the injury which its application might work to particular persons or industries. If true, it has the right to demand the enforcement of its principle, even though the industries reared under the wing of Protection should be doomed thereby to disappear. But, on the other hand, it is within the province of the statesman to declare that he must break the suddenness of the process of applying Free Trade to a country deeply committed to Protection. It is within his right to assert that the present benefit of absolute Free Trade would be overbalanced by the mischief of an immediate and rigorous enforcement of its teaching. Knowledge says that the abolition of every protective duty is a policy which promotes the welfare of a people. On the other hand, statesmanship may declare that regard for suffering to ensue may demand that time shall be given for effecting the transition from one kind of occupation to another.

Let us assume then, for the purposes of this investigation, that there is no transition period; that the capital and labour employed to-day in a protected industry may without suffering be transferred to another occupa-

tion to-morrow; and that there is no call to suffer the pain of the change to stand in the way of a great public good. Political Economy has often been charged with inhumanity, as being indifferent to human suffering. No accusation can be more unjust. Have the promoters of railways been denounced as monsters because they brought about the ruin of the great coaching and posting interests, and of the many trades which lived by the employment furnished by the coaching business? Have printers been handed down with dishonour because their art threw the copiers of manuscripts out of employment? Has it not been clearly seen in these and numberless similar cases that the public good dominated over all regard for individual interests? Why, then, has Political Economy received a different treatment? Why has it been measured by another standard of morality? Let Political Economy, when it advocates principles whose adoption may bring distress on large classes, be held to a strict proof of the countervailing advantages which it promises. No Political Economist will repel such a trial, for to do so would be to expose the truth of its teaching to suspicion. But if it passes the ordeal successfully, why should accusations of want of feeling be flung against its disciples any more than at the discoverers of any principle which has developed the civilisation of mankind?

Let us now endeavour to demonstrate the truth of Free Trade. It rests on two fundamental principles.

1. The first is the fact that all trade is an exchange of equivalent values or services. This is the very essence of trade. Trade always exacts as much as it

gives away. A single transaction of trade may involve loss; but continuous trade necessarily balances itself on the average of its dealings. If it is permanent, then the giving away is met by the receiving; the two processes must of necessity balance each other with equal exchanges. Hence the fact of buying is a complete and conclusive proof of the corresponding fact of selling. To buy is to give away your property in exchange for the goods bought; and to give away property for other property is precisely the act of selling. Every nation, therefore, which buys sells also, and sells to the full value of what it buys. A nation which does not sell cannot buy. This is the first, absolute, incontestable truth on which Free Trade reposes.

"Not so," many thoughtlessly reply, "The foreigner is ready enough to sell us his corn or his iron, and to be paid for them; all the world is willing to do that. He will gladly take our money, but he will have nothing to say to our goods. England, then, loses her wealth, her money; she carries on a losing trade to the great injury of her people." Those who use such language are profoundly ignorant of what money is and does, nor do they perceive that their argument involves a very palpable absurdity. England certainly can buy abroad so long as she has gold and silver to send away, but as she does not herself produce these metals largely, it is obvious that such a trade must soon come to an end. When the stock of gold is gone, all purchasing abroad must cease, till she has acquired a fresh supply of gold. But how is she to procure it, except by persuading foreign countries to send it in exchange for her goods? The fact always remains the same, that England buys abroad

with the products of her industry, for she has nothing else to buy with. If the nation from which she obtains cotton or sugar will not take her own goods, then, supposing the trade in cotton to continue, it becomes three-cornered, in a manner, instead of a direct exchange of cotton and sugar for English iron and cloth. The process is identical with that of money. The hatter buys a sovereign with a hat, and then with the sovereign buys a pair of shoes: shoes are bought with a hat. If the Americans will not take English yarns or iron, England with her goods buys bills due by Americans to Frenchmen for silks and pays for the cotton with these bills. England buys bills of the Frenchmen, and with these bills purchases cotton. In every case absolutely, no country can purchase anything of foreign countries except with her own products.

A corollary of much practical value may be drawn from this reasoning. We see in many quarters great pains taken in tracing out the statistics of international commerce for the purpose of showing that the country which buys of the foreigner is not compensated by a corresponding amount of sales. This is idle and unprofitable work. It is enough to know that the trade goes on. This fact, by itself alone, upon the grounds explained above, demonstrates that the foreigner has bought as much as he has sold. No statistics are needed for the proof of this fact, nor if the statistics failed to point out how the equivalent has been received, would the demonstration be in any way weakened. Assuredly no Economist, nor, indeed, any thinking person, need give himself a thought, so far as this point is concerned, as to what the statistics may or may not

bring out. The trade goes on; therefore selling is taking place to the same extent as buying abroad.

The truth stands out in clear sunshine. Free Trade cannot and does not injure domestic industry. Under Free Trade, foreign countries give in every case as much employment to English workmen and capitalists as if nothing had been bought abroad. English goods of the same value must be purchased by the foreigner, or the trade comes to an end. There must be an equal amount of English goods made and sent away, or England will never obtain the foreign commodities. Free Trade never does harm to the country which practises it; and that mighty fact alone kills Protection. Let those who are backsliding into Protection be asked for a categorical answer to the question—Can and will the foreigner give away his goods to any country without insisting on receiving back, directly or indirectly, an equal quantity of that country's goods?—let the question be pushed home—and all talk about injury to domestic industry must cease.

II. We come now to the second principle on which the doctrine of Free Trade rests. It is this. All are gainers when each man and nation betakes himself to the making of those articles for which his labour is the most productive. The popular saying that it is wise to buy in the cheapest market expresses the same truth. This principle is identical with that of division or separation of employments. It is supreme over all labour; it is instinctively practised by all that work. Let the women do the sewing and the cooking of the meals, and let the men lift the weights and do the digging—is a universal practice adopted by instinct without reflection, and it is

the essence of Free Trade. If each man were to supply all his wants by his own labour he would obtain miserably few of the conveniences and comforts of life, civilisation would be impossible, and very few inhabitants could maintain themselves in any land. In civilised nations no man ventures to deny that every one is the richer, every one the better off, by the shoemaker making nothing but shoes, the brewer nothing but beer, and so on. But few care to analyse how this universal increase is brought about, yet the process is not difficult to understand. The cotton-spinner produces an incredibly greater quantity of yarn in his mill than he and his workpeople, with the same expense of food and clothing, could produce, if each took to making cotton yarns singly for himself.

It is the same with every trade. By dividing employments and assigning a single occupation to each workman or set of workmen, there is an enormously larger quantity of commodities, of wealth, created at the end of the day. The labourers must have their maintenance in each case alike; but if each does everything very little indeed would be produced. By each confining himself to one article very much more is made. The mass of things to be divided is immensely larger, and each gets a greater share of commodities for his own enjoyment, as the fruit of his own labour. Put countries in the place of individual men—and the result is precisely the same. Each country, by taking a single commodity for its work to perform, makes it better and more cheaply, by the very fact that it concentrates its energy and directs its skill on one single operation. In every country the same principle

is carried out, as if by natural instinct. Particular industries develop themselves in particular towns and disticts, although at their origin no special reason probably guided the selection of that particular business by the locality.

But the principle has a still wider application. Not only is there vast gain by each labourer limiting himself to one single employment, through the skill he acquires, the saving of time, and the having ready at hand the tools he requires, but this gain is further increased by him and his fellow-workmen selecting that kind of production for which they possess special advantages, whether it be that coals are abundant on the spot, or a more fertile soil to plough, or a more beneficent climate to rear up and ripen. The rich pastures of Leicestershire and Ireland are devoted to cattle. The splendid collieries of the Midland Counties send their inhabitants to the iron trade or other businesses dependent on steam engines. No Sussex sheep-breeder complains that he is left unprotected against the woollen manufacturers of Yorkshire, no Devonshire farmer is indignant that his apples have to compete with the barleys of Norfolk. The fruitful fecundity of the principle that each should buy of the other, and those should be allowed freely to develope trade who can obtain the most abundant returns for the capital and labour expended on its processes, is never contested within the limits of a single people; but the magic is dispelled the instant that the hateful foreigner is in sight. Was Sir Dudley North mistaken when he proclaimed nearly two hundred years ago "that the world, as to trade, is but as one nation or people, and therein nations are as persons"? Does the

principle lose its value when it reaches the margin of the Channel or the Atlantic? Does the accident that a man is called an Englishman or a Frenchman interfere in any manner with the nature of trade as an exchange of equal commodities? Does the Sheffield cutler buy bread of the Yorkshire farmer because he is an Englishman? See in what an absurdity such a notion of the patriotic duty of protection lands us. If a nation enacts protective duties against a neighbouring territory, it is true science and wise policy to prevent native industry from being ruined by foreign competition. But if the nation annexes that territory and makes it part of itself, then it is equally true science and wise policy that the industry should be destroyed, because the destroyers are now fellow-citizens. Is this Political Economy? Is this a description of the nature and laws of trade? Nay, is this a doctrine which protectionists can accept? Yet accept it they must, if they build their protectionist doctrine on the distinction between fellow-countrymen and aliens.

These considerations establish the cardinal truth that trade knows nothing of politics, or governments, or brotherhoods, or nations, or patriotism, or any other feelings and policies. It is the exchange of goods of equal value, because each exchanger reciprocally wants the things which the other has to offer. International trade is by nature, and ought never to be regarded as anything else than a trade between town and town, county and county in the same country. Political Economists themselves, however, have done no little mischief in this matter. Mr Mill and others have discussed international trade as something distinct in kind from ordinary

trade; they have refined about it, and spoken about it as to when it was more, and when less advantageous. Trade being always, and at all times, the giving of one commodity in return for another, such speculation on the international branch of it is superfluous and misleading work. The very word international lets in the narrow end of the confusion. What does trade know of nations, except that tea is produced on a spot called China, and shorthorns in another spot called England? If it is only let alone, and not interfered with by governments, it will take care that equal value shall go across the frontiers, as it does that Manchester shall pay for its meat, and the farmers for their clothes. On the average neither man nor nation does or can win anything at the expense of the other. Who ever inquires whether Birmingham is gaining at the cost of Warwickshire or the reverse? Why ask whether international values are equal between England and America?

But let us consider a little more in detail the principle that every one gains by each nation, precisely as each man, producing those commodities for the use of the world for which it possesses some peculiar aptitude. Even the most violent protectionist would not countenance the attempt to manufacture sugar or wine in England. The folly of such a proceeding is too transparent. The outcry begins only when goods may be produced equally in both countries, and when the difference of cost would not be enormous. Yet the loss is just as certain in the case of the small waste as in the case of the large; it varies only in degree. Free Trade, on the contrary, enriches all. Let us take the instance of ribbons, and let us examine it minutely; for an

example taken to pieces is as much needed for many people as general reasoning. Under the shelter of protective duty against French rivals, a Coventry workman may make a ribbon in a day of twelve hours and sell it for four shillings. He then receives from the buyer of the ribbon commodities—(we must think not of the money, but of what the money buys) —which in their turn cost equally twelve hours to produce. Let the duty be now repealed, and Free Trade grant the facility to every one to buy a ribbon where he pleases. The buyer now finds a French ribbon which he can purchase with commodities that cost only ten hours' labour, and he buys it. He has still two hours at his disposal; the fruit of his labours during these two hours is pure gain—or he may spend them in leisure and enjoyment. If he works on as before, there is an increase of wealth in the world by the results of the two hours' labour; and what takes place with one protected trade takes place with all, as soon as Free Trade has set its beneficent action to work. The gain, the increase of things produced with the same labour and cost, may be vast.

But how fares it with Coventry under this revolution? Its workmen must starve, we shall be told. Not so. The French ribbon makers—and that is the pinch of the question—must buy the products of ten hours of English labour; they must take that amount of English goods and the Coventry men instead of making ribbons will make these goods. They will produce them with the labour of ten hours, and if they work twelve hours as formerly, they will be better off without any increase of toil; they will have made more things, and will get more

in exchange for them. This is an addition to the wealth of the country, and as we are now assuming the ribbon maker as the representative of all the workmen, and the ribbon buyer of the whole community, it is a prosperity shared by all. The fruit of the two hours constitutes an increase of the demand for labour, and the Coventry men come in for their share of the benefit.

The loss entailed by Protection must not be measured solely by the difference of price of the article protected and that of the article procured from the foreigner. The state of the shipping interest in the United States of America furnishes an excellent illustration of the expansive character of this loss. The protective duties in America on iron and other articles render shipbuilding so expensive as to give a great advantage to English and other shipbuilders, and to reduce the American trade in ships to very low dimensions. That shipping trade had been wont to bring large profits to the American people. They have been immensely diminished by the action, be it observed, of laws which had no wish to interfere with that business but were aimed merely at protecting American against English iron. The ironmasters in America thus acquire a special profit, the profit of monopoly, or, at any rate, the power of living by the iron business in manufacturing iron used in their country. But they not only injure those who buy their iron of them, but actually destroy a large use of iron and the thriving trade connected with it. The American people are twice injured; first, by the additional quantity of the fruits of their labour which they must give to procure iron; and, secondly, by the injury done to a flourishing business in the building of

ships which brought gain to the traders and employment to the people.

This second injury, in most cases, is far more damaging than the first. Protection cripples industry on every side for the sake of the small advantage which it confers on the protected trades. It renders many operations of industry, with their attendant profits, impossible. The crippling effect of protection must never be left out of view in this most national question. Mr Cobden and his associates in the mighty battle against protection never ceased to point out the indirect consequences of protective duties. In what state would now be the colossal manufactures of England, if the duties on foreign corn had kept bread dear over the whole land? To measure the calamity by the additional penny which each loaf of bread would have cost would be futile. How many of those who now buy bread, and plenty of bread, must have gone without it altogether? How many an artisan whose energies are kept alive through the moderate price of provisions at home, would never have found the mill that now employs him? How much of the bustling prosperity of our ports would have failed to bear witness to the prosperity of commerce?

The demonstration is complete, yet conspicuous as is its truth, it is resisted nevertheless. There is a force at work amongst mankind ever driving men into backsliding. The personal and private gains of monopoly created by law, gains wholly extracted from the pockets of the community which enacts such a law, are ever throwing the public interest into the background. These interests never sleep. They are ever watchful of opportunities. They grow up imperceptibly, and when of

sufficient size declare themselves to be the representatives of the true interest of the nation. They seldom venture on a direct argument with Free Trade, but they are clever at suggesting reasons for thrusting aside a doctrine which they dare not pronounce to be false. Let us examine some of these devices.

There is one which has found favour with even superior minds in this country, and which, through their influence, enjoys greater repute in America and elsewhere. No name of high celebrity is put forward so incessantly as the shield of their doctrine by the advocates of protection as that of Mr Mill, and so great is the support which it gives to a policy so profoundly injurious to the happiness of mankind that it may almost be questioned whether Mr Mill has not done more harm to the welfare of the human race by the countenance he has given, though limited, to protection, than he has done good by all his other writings on Political Economy. "Free trade is true," this subtle refinement declares, "but its application requires care, and times occur in the history of many countries, when its teaching ought to be suspended for a season. A country may be capable of sustaining the freshest breezes of competition ultimately, but its inhabitants may be too poor, too ignorant, and too unenlightened to make a beginning. They are incapable of making an effort sufficiently energetic to face the competition of more advanced nations. They must for a time be assured of the possession of the home-market, and then when they have grown out of leading strings, they may be fairly trusted to run the race against the whole world."

But what is this but a cry for paternal government? The people are children; they cannot take care of themselves; they are too backward to seize on the natural advantages of their country. The Government must keep them in the nursery, must do everything for them, must teach them the arts, or at least must give them bribes to perform things which of themselves can reward them handsomely. It is too late in the history of the world to preach the virtues of nursery government. The natural energy and intelligence with which Providence has endowed the human race have been found by experience to be more successful instruments of progress than the artificial care of rulers. In political matters paternal government is exploded, except where despotism deliberately aims at keeping its subjects children. A hankering for it still lingers in commercial circles, because a clear profit can be got out of it by a few persons at the expense of the people.

And even if it could be shown to be expedient that a Government should try to show the way to its subjects how to begin and carry on a trade, it would be cheaper and safer for the Government to undertake the business itself than to rear up a body of men whose interests are directly hostile to those of the community, and who, when established, command an influence and a power very difficult to dislodge when the period of education ought to be declared completed. The Government indeed would be exceedingly likely to lose, but the loss inflicted by protection would be far heavier. Let the Government perform its appointed task of educating the people. Here its action is legiti-

mate, and thus it may bestow valuable aid on commercial progress. But it must not attempt to supersede the natural qualities of the population by its own contrivances. The intercourse which different nations now hold with one another is so free and so easy that there is no danger of any available source of wealth being long neglected through the ignorance and indifference of the people. Nations in our day educate each other rapidly. There is no need for their being taught by their Governments which trades are likely to be profitable.

Another objection to Free Trade is the complaint already investigated, that foreigners will sell but not buy. Foreigners, then, give away their goods for nothing.

The commonest, the most insisted on, the most touching reply to Free Trade, is the injury which its adoption has been found to inflict on great industries, in which large masses of the national capital have been invested, and which give support to vast numbers of the population. It has been known to kill such industries; how can it be for the good of the people to be thrown out of employment and reduced to misery? The most ordinary feeling of patriotism recoils from the infliction of such suffering; and severe may be the dangers and the embarrassments to the statesman. How can the poor German, cries a member of the German Parliament, make iron in his country which shall compete with the English? Must not the oppressive superiority of the foreigner be repressed by law? But what does such language shew but the mischievous consequences of

these unnatural industries having been allowed to grow up? The heavier the blow which they sustain when exposed to the bracing air of free trade, the more clearly is it demonstrated that their goods ought not to have been produced at home, but ought to have been bought from foreigners with other goods which the country could make with advantage. We have seen that if such industries disappeared under free trade, others must necessarily spring up to manufacture the articles which the foreigner wants, and for which he will readily give the goods which it was foolishly desired to make at home. The more it is perceived that the protected trades cannot face free competition but disappear, the clearer does it become how heavy a tax was levied on the community.

It is truly amusing to observe how protected traders invariably proceed on the cool assumption that their business must be kept alive for them, must continue to exist. It never occurs to them to ask themselves why it should exist. That is assumed as a thing of course. They are willing to have treaties of commerce and repeal of protective duties, provided they are able to continue their business as heretofore; but if Free Trade threatens its extinction, and forces them to betake themselves to some other occupation, no limit is set to their indignation, as if they were suffering a wrong which the nation was bound to redress. The same men who think it quite natural that the coaching business and the posting inns should be extinguished by railways hold it to be a law enacted by Providence itself that woollen cloths should be made at Melbourne and cotton yarns in America.

The outcry against the invasion of France by English cotton is not nearly so rational as would be a de-

mand for a comfortable maintenance by the French State of every Frenchman. Every protective duty throughout the world is nothing but a living upon charity. It is a requisition made upon the public to grant a livelihood which the protected industries cannot provide if left to themselves. It is right that every protected trader should be precisely told that he is living upon charity, upon a tax imposed, not on the foreigner, but on his fellow citizens. What they have to pay him beyond the price demanded by the foreigner is charity money, is a tax levied under the disguise of patriotism, on the plea that the poor fellows must be kept alive. Kept alive; by whom? Not by their industry, for that does not pay; if unhelped by the duty, its products would fetch only the same price as those of the foreigner, and the business could not go on upon such prices.

It really becomes a matter of the utmost importance that in the conduct of the argument with protectionists it shall always be laid down that it is an inevitable, and still more, a desirable consequence, that every trade which cannot exist without protection ought, in the name of justice, as well as of the national welfare, to disappear. Protection takes from others what belongs to them, and takes it by force, by the force of law. If the cry is raised, would you then ruin these busy capitalists, and drive all these poor people into starvation? the answer is what has already been stated. The mode of effecting the transition to some other employments is the function of the statesman; the nation which has allowed this false industry to establish itself must pay the penalty of a public loss, more or less severe, during the process of its abolition. But it must cease;

that is the one vital, necessary, irresistible position to take up. There is no other conclusion possible for any rational man. It is the solemn duty of every ruler of every country to accept this great central economical truth, and to deal avowedly with protective duties as things which have been condemned and must depart. The manner of their death must be left to his judgment, and, be it added, to his tenderness.

Experience has revealed a fact which may mitigate the natural hesitation of a statesman to make changes in legislation which may involve distress for many. Protection is now known to breed carelessness and inefficiency. Protected producers rely on the monopoly given them by the law. They are comparatively indifferent about improvements; they settle down in mediocrity. But when the danger presses upon them that the prop they lean on may be removed, a new temper of mind comes over them. The thought of competition without shelter braces their muscles; vigour succeeds to apathy; improved processes render labour more efficient. The grand discovery is thus acquired that the protection was not needed, that the trade had a genuine vitality of its own. Thus it happened with the farming trade after the repeal of the Corn Laws. The whole agricultural hierarchy, with few exceptions,—landlord, farmer, and labourer—believed that the wheat lands of England would go out of cultivation. Parliament was not deterred by this alarm; it persevered with the abolition of the duties on foreign corn. And what has been the final issue? An improvement in the efficiency and productiveness of agricultural labour unparalleled in the kingdom, a growth of wheat per acre unknown to former ages, a

rise of rents for the landlord and better wages for the labourer. Thus it has been found that agriculture in England needed no protection to secure either its existence or its prosperity, that the Corn Laws had been a clog on its improvement, and that the keen air of competition has generated energy and success. The agricultural population now possesses a confidence in the soundness and permanence of their business which was never felt by their predecessors.

It is sometimes urged that Free Trade deprives capital and labour of employment, they being supplanted by the capital and labour of the foreigner. It has been shown that this is a mistake. The capital and labour of England are equally employed as previously in making the articles required for the purchase of the foreign ribbon, whilst by each country making what it has special facilities to produce, a gain, say of two hours, is won in both. But here, we shall be told, is the very pinch of the question. The workman, it is said, will have no motive for working during these two hours which he has gained. The buyer of the ribbon wants one only; he will give nothing for a second, for he will have no use for it. But even were this so, there would be a clear gain of time for rest and for the enjoyment of life.

But it is not so; those who speak thus misconceive the means by which wealth is produced. A man works and produces because he can get other things in exchange for those he makes. If every labourer in the country had two more hours to work in, upon the same amount of food and clothing, a multitude of additional articles would be created, and they would all find a sale. Why? because everyone of us would use and consume

an endless quantity of additional commodities beyond those we now enjoy, if only we had the means of buying them; and those means would be furnished by those additional articles produced in the two hours supposed. A farmer would buy more furniture if the upholsterer would buy more mutton; and the upholsterer would buy more mutton, would live more generously, if the farmer would purchase more chairs and tables. Trade is merely an exchange of goods, and it is practically unlimited if there are more goods to be exchanged on both sides.

What is true of the labourer is equally true of the capitalist. They are both joint performers of the same operation. The limit to the employment of capital consists in the physical difficulty of obtaining returns for its use. Capital may be applied to a field in such quantity that at last the field yields no return for it that can compensate for the effort of saving capital; but the world has many ages yet to run ere capital encounters the insuperable limit to its further accumulation. The vast productiveness which steam has bestowed on capital has not resulted in the creation of wealth for which there is no demand, which cannot be sold. The precise reverse of this has occurred. Clothing, furniture, food, numberless conveniences and comforts have been poured into the shops in unbounded profusion, and have all found buyers. The effect of Free Trade is to render labour and capital more productive by applying them to those industries in each locality which yield the largest returns in the same time of working; consequently there is more to exchange; and everyone better off,

because each one having produced more goods himself has increased means for obtaining from others articles which he desires to consume. A larger stock of goods produced necessarily implies augmented trade.

Another argument in partial support of Protection has reappeared in these days, and much stress is laid upon its validity, even in Free Trade quarters. Good policy demands, it is alleged, that a nation should maintain its independence in economical as well as in political matters. It should guard against dependence on the foreigner for the supply of articles necessary for its existence, or even for its strength. An enemy would be able to apply irresistible coercion on a country with which he was at war, if he could cut off all access to some commodity the want of which would place that country at his feet. This is the old argument which was urged with so much vehemence and so much obstinacy against the repeal of the Corn Laws in England. But this was an opposition which could not prevail against the urgent cry for cheap food wherewith to sustain the development of industries which were making their way into every market of the world. So the obstacle which the law interposed to the full ingress of foreign corn into England was swept away—and the consequences were, cheap food, a vast expansion of the exports of British merchandise wherewith to pay for it, a rapid and enormous increase of the population, and the English nation dependent on foreign nations for the supply of one half of its food. Has this state of things, in a matter so vital as the means of supporting life, led to any danger or any alarm? Does a single man in England ever become frightened, lest, as in Ireland, a

multitude of the English people should fall into starvation? Does a man ask for a restriction on foreign corn, and compulsory extension of the growth of corn in English fields on this ground of dependence? Not one. But, it is replied, even by some who are really the friends of Free Trade on economical grounds, England adopted Free Trade as a necessity—she had no choice; all that was open to her alarmists was to reconcile themselves to a condition of life which is inevitable. But this is no answer to the fact that no one feels any fear—that the only anxiety ever felt is lest the foreign fields which supply us may not be encountering bad harvests.

But, in truth, this desire for economical independence is in direct collision with the course which modern life is steadily and increasingly taking all over the earth. Men are more and more interlaced with one another—their lives are becoming more and more parts of one great whole, members of one common household. To aim at industrial independence is to aim at combating the set of a resistless tide, is to seek an impossibility. The teas of China and India are daily entering new countries, the iron railways and engines of lands rich in minerals are penetrating further into vast agricultural areas; the wines of France and other favoured regions are bought and drunk in more remote territories; the goods manufactured in special localities are consumed by all mankind. Such interdependence in truth brings security, not danger; the interests now involved in the unbroken stream of the supply of human wants are so vast, that they may be trusted against every effort of war or violence to overcome them. Economical dependence will progress whatever the powers of the world

may say or do to the contrary; it lies in the very constitution of human nature, such as man is found to be to-day. That Protection is practised at the cost, not of the foreigner, but of the protected nation, has been shown above. To seek to tax a people, to put upon it a heavy expense which it can easily avoid, in search of economical independence, is to pursue a dream which, we may be sure, will never have any actual existence for any men who clearly understand that they are distinctly and avowedly giving it reality with money out of their own pockets.

We reach, lastly, one of the most favourite defences employed by the advocates of Protection. It was once largely put forward in England. "England," it was said, "is a heavily taxed country. Her industry is weighed down by burdens imposed on it by the Government. All her people are forced to incur additional expense through the taxes laid on the food of the labourer, and the profits of business; how, then, can it be expected that her manufacturers and her traders should be able to compete on even terms with the lightly taxed foreigner? How is a trade to maintain itself in an open struggle under such disadvantages? Fair play, a fair start all round, can be obtained only by balancing the advantage of the foreigner in the market, by imposing on his goods a duty which will be equal to what the Englishman is estimated to have paid in excess of taxation." There is a sound of fairness in this statement, but it is sound only without substance. It assumes the very point that Free Trade denies. It takes for granted that the particular trade which is unfavourably situated must be made to live in England. But how made? at

whose cost? at the cost of the people amongst whom it is desired to force the continuance of this industry—by additional taxation levied by the protected traders on the already over-taxed public.

Free Trade makes the counter assertion that this trade ought to cease because the over-taxed country will be able to supply its wants more cheaply, and because it will escape the charge of giving charity to makers of goods who cannot support themselves. The Frenchman will accept from a Birmingham buyer a chisel worth half-a-crown for his ribbon; the Coventry workman requires a packet of nails in addition to the chisel. The question then becomes whether it is for the interest of the nation to compel the Birmingham iron-maker to buy of the Coventry ribbon-maker at the extra cost of a packet of nails. All the goods, the ribbon, the chisel, and the nails, are produced under the same weight of taxation. Taxation affects all equally. By purchasing of the Frenchman the Birmingham buyer obtains the same article as from the Coventry man, a ribbon in exchange for a chisel. He, that is England of which he is the representative in this discussion, saves the extra packet of nails which must have been given for the Coventry ribbon. England is the richer by the value of the nails; and this is true, whether all the articles are manufactured under much or little taxation.

The question to be decided must always be whether it is good policy to compel the purchase of the ribbon from the Coventry maker with a chisel and nails manufactured under taxation, or to buy it from the French with a chisel only, equally born under the load of taxation.

When the issue is thus stated, it becomes manifest at once that the amount of English taxation can have nothing to do with the decision. The consideration of what the manufacturer has to pay for taxes can have no weight except upon one hypothesis—that a previous decree has been passed that the trade under discussion must be kept, at all hazards, alive in the country, whether by its own self-supporting energy, or at the expense of the public through the instrumentality of Protection. There are, indeed, some special trades which are entitled to such a decree. No one would consent, if ships of war could be bought more cheaply from foreign countries, to render the existence of the English navy dependent on purchases made from foreigners. But such trades are extreme cases, and are governed by motives wholly distinct from mere considerations of commercial or economical profit.

A strong attempt was made during the contest on the repeal of the Corn Laws, to defend agricultural protection on the ground of the extreme importance of not suffering the nation to be dependent on foreigners for food; but it could not live through the debate. It was seen that England must have sunk to a third-rate power if she had fallen under the doom of feeding herself. And what is the feeling now when, for a large portion of the year, her people would perish of famine, if foreign supplies failed to arrive at her ports? At no former period of her history, probably, have the people of England felt such confidence in the unfailing supply of abundant food. The fields of the foreigner are felt to be her fields as truly as those which are spread over her counties. She commands the

agricultural energy of the whole world; Free Trade is the guarantee of her safety.

And now what shall we say of the language which speaks of foreigners as rivals or competitors whose success is our loss? If such words are used of what are called third markets, in which English and foreign producers meet to offer goods to the inhabitants of those countries, then no doubt the foreigners are rivals, and their success is English loss. If English and Belgian iron masters send rails to Australia, and the Belgian rails are found to be the cheaper of the two and are bought, then England will have lost her customer and with him an important trade. But in this place our business is with free trade over against protection, and with the cry to keep out the foreigner by legislation as a mischievous competitor in one's own country. In such a case, it is a new aspect of trade to regard the man of whom you buy as a rival, for trade was wont to be described as a friendly and social act. These modern days are fertile in new discoveries. Has the intelligence of the country been enlightened with the revelation that the American who buys cotton cloth of an Englishman commits an act of hostility against his fellow-countrymen? Is it not plain that these ideas issue from the lips of interested traders—of men who manufacture the same goods as those bought from the foreigner, and for whom, no doubt, he is a real and possibly a destructive rival?

There exists a real and undeniable hostility in this matter—the hostility of the protected workmen against their country. They know that in an open market the goods of the foreigners and not theirs will be bought, and their object is to compel their fellow-countrymen

to support them by giving them an extra price for their merchandise. It is a natural feeling, and let us not be angry with these men. Who is there that can bear easily to see a flourishing business irrevocably decaying away, and himself obliged to exchange assured maintenance and comfort for a livelihood which, till he betakes himself to something else, may be precarious. It is our duty to feel sympathy for this suffering, as one might and ought to have sympathised with the troubles of the manuscript-writers on the invasion of printing; but the law of human life and of national association forbids that any class of men should be permanently supported at the expense of the community. What is given to them is taken from others who can ill afford the gift. If once the principle were established, that in any form whatever, even as carrying on a large industry which employs many workmen, any portion of the population has a right to be maintained at the public cost, how is it possible to stop short of communism? Protection is only a contribution in disguise from the public for the support of some particular persons.

It remains to speak of reciprocity; it need not occupy us long. The doctrine of reciprocity admits the principle and the practice of Free Trade to be right generally, but it annexes a condition to free trade in a particular case. If the foreigner refuses to meet our adoption of free trade by a similar action on his own part, if he places protective duties on our goods and thus prevents the products of our own industry from freely competing with him in his own country, then the proper course is to meet him with the same measure on

our side. Protection is admitted by the doctrine of reciprocity to be wrong in principle, but when it becomes counter-protection and retaliation, it is then the correct policy to pursue; it is right to give blow for blow. If the Frenchman injures the English makers of iron by a protective duty on English iron on its entrance into France, it is fitting to punish him by crippling his trade in silks with England. This language is the offspring of pure confusion of thought; it utterly misconceives the nature of all trade. It refuses to regard an act of trade, by itself alone, as a single transaction; it insists on coupling it with another with which it has no connection whatever. A purchase of silk is one thing, separate and distinct, a sale of iron is another, equally separate and distinct.

If iron is the only article which England has to sell and to give in exchange for foreign goods, then of course, if the Frenchman refuses to buy English iron, England cannot buy French silks, and all trade between the two countries simply comes to an end altogether. But this is not what the advocate of reciprocity means or intends. He always supposes that trade will go on between England and France, but there must be none in French silks simply because there is none in English iron. He demands only that an injury shall be inflicted on the French manufacturers of silks in retaliation for that inflicted on the English manufacturers of iron. But there is a fatal flaw in this reasoning of the preacher of uniformity. He leaves out of consideration the English buyer of silk—in other words, the people of England. To take the case of the ribbon makers of Coventry, in whose behalf this doctrine of reciprocity

was most warmly pleaded. Why, solely because the French do not choose to buy the better and cheaper iron of England, is a tax to be imposed on every consumer of silks in England—a gratuitous tax, one of pure passion and temper? That the men of Coventry ought not to make ribbons if cheaper ones and more of them can be obtained from France with the same amount of English labour has been already shown, and is not denied by him who takes his stand on reciprocity. Why then should free trade be forbidden to say to the people of England—buy your ribbons of France, and let France or some other country buy in return those goods which England will have to make to exchange for the ribbons? The Coventry men, when the transition state is over, will themselves be gainers also, for larger and more profitable trade will be created. For the English people to spite themselves because these perverse Frenchmen will not buy English iron would be simply to commit folly in England because folly is committed in France.

Free Trade is right for its own sake, for the sake of the nation that produces it, independently of all regard for what the foreigner may or may not do. If the foreigner sells he must buy to an equal amount. That is absolutely certain, and the whole question between Free Trade and Protection is always and fully raised and decided in the purchase of each single article without reference to any other buying and selling. Protection is bad in itself—bad for the country which embodies it in its statutes, harmful and impoverishing to the nation which forbids its people to employ themselves in those industries for which they possess the greatest aptitude,

and in which their labour is most profitable. Every protective duty is a mischievous and injurious thing, calling for abolition out of pure regard for English interests. On what possible ground can it be pretended that the removal of a disease which is preying upon English trade should be made to depend on what Frenchmen or any other foreigners may do within their own territories? The notion evidently is that in giving up a protective duty we are making a sacrifice to the foreigner. We have seen that this is a mistake. There is a sacrifice in a protective duty, but not in its repeal, but in its retention, the sacrifice of the good of the people to the personal advantage of a few. In establishing free trade, in allowing Englishmen to buy the foreigner's goods freely, to do him a service is in no sense whatever the motive of the act. He will profit because there will be an increase of trade, but the object which prompts the abolition of protection is to relieve the home country of a legislation which works it commercial harm.

But there is another and very different case, when the question of reciprocally abolishing duties in two countries simultaneously assumes a radically different character from the ordinary doctrine of reciprocity, the case when duties not protective but merely financial come under discussion. The motives which regulate the imposition of taxes for purposes of revenue are extremely complex and variable. A Chancellor of the Exchequer who either imposes or remits taxes must unavoidably be swayed by many diverse and often conflicting considerations. It may easily happen that in a deliberation which must frequently be perplexed, the

possible effects which may be produced in foreign countries by the remission of a particular tax may assume great importance. A minister who has taxes to remit is brought face to face with motives of very different kinds. He has to weigh the inconveniences which belong to each separate tax, and further he must take into account the collective benefits which the abolition of a particular tax may bring. He may be justified in selecting for remission that tax which is perhaps less directly noxious than the other, but which may stand in the way of the acquisition of a great gain from an independent source. It would be open in principle and reason to the minister to apply his surplus to the abolition of one tax rather than of another, if thereby he can persuade a foreign country to reduce a tariff which impeded and injured English trade. Here the doctrine of reciprocal action has a perfectly legitimate application. No economical principle forbids the deed.

But though international treaties founded on joint remission of duties are free from any objection on the score of principle, it may be permitted to question their policy. At the best they are only a contrivance for combating the prejudices and the ignorance of foreign countries. They are devices for entrapping others under the appearance of a profitable gain into what they should do because it is right and beneficial. They aim at overcoming by a side-wind false notions about trade in foreign lands, but on that very account they have a manifest tendency to perpetuate the errors. So long as foreign Governments look out for equivalents before they consent to reduce duties, so long will they be dis-

inclined to study the natures of free trade and protection. There is an appearance of gain, of advantages won by the diplomatic art, of benefit extorted from foreigners, which turns the minds of statesmen away from the study of economical truth. It is the wiser and in the long run the more successful course, to preach the truth by reasoning and example.

CHAPTER X.

THE DOCTRINE OF RENT.

RENT has long been a favourite field of economica investigation. The success which political economists are said to have achieved in determining the nature and laws of rent is commonly regarded as one of the most brilliant triumphs of the science. The doctrine of rent which has resulted from their researches is pointed to by many as one of the grandest proofs of the scientific character of political economy. Indeed some have gone so far as to assert that the established theory of rent inevitably demonstrates that political economy is a true deductive science, as rigorous in its method, as genuine a development of strictly reasoned inferences from first principles as even the constructions of geometry. A position thus splendid, won for a doctrine by the genius of so many men of distinguished ability, might seem to have lifted it up for ever above the reach of criticism. It might be thought as presumptuous to challenge its accuracy as to dispute the validity of the first propositions in Euclid. Nevertheless, I venture to submit, that this very pretension to convert the doctrine of rent into a foundation for claiming for political economy the character of a deductive science furnishes ample warrant for a re-examination of that doctrine.

* Read before the Manchester Statistical Society, March 13, 1872.

The theory of rent, whatever else it may be, most assuredly is not a product of deductive reasoning. Rent is a complex fact of the outward, concrete, material world; it must be studied in its objective and actually existing form before its nature can be ascertained. Its elements have to be discovered before they can be put together in a theory. Its phenomena must be sifted, what is accidental separated from what is permanent, before we can reach its laws; in a word, it must be first subjected to analysis before its elements can be handled by synthesis. All these processes are those which distinguish analytical sciences. They are not expansions of a first principle or of a definition; they are searches after facts, inquiries after laws which are not emanations of the pure reason, but only combinations of discerned relations. Thus the science of rent, if there be one, stands on the same identical ground with chemistry, or any other acknowledged analytical science. Now it is a peculiarity of all analytical science that it is perpetually open to re-examination. It can allege no necessary inherent unalterable nature of its laws. Still more, it can give no absolute, even certain, guarantee of the completeness and accuracy of the investigation, on which the formulas which are called its laws repose. The noblest product of analytical reasoning, the great law of gravitation, is at this hour the object of incessant inquiry. Few astronomers, if any, will now venture to affirm that the law of the inverse square of the distance is anything more than a fact, and a fact moreover which no one can assure us holds good at all times and in all regions. And if the generalisations of astronomy may be perpetually questioned, it is no act of extravagant

presumption to submit the utterances of the doctrine of rent to revision.

What then is rent? What is the subject-matter of this discussion? It is a fact of the every day world, an event of incessant occurrence in the actual material life of mankind. We will not say with Professor Cairns that "Rent is a complex phenomenon arising from the play of human interest, when brought in contact with the actual physical conditions of the soil, in relation to the physiological character of vegetable productions." That is too scientific for us, supposing it even to be intelligible. We will say rather that it is the consideration paid for the loan of land, the price stipulated for the lending of a particular machine. Rent, in legal phrase and common language, includes the payment annually given for borrowing every kind of land; but in political economy the expression is usually limited to the hire of agricultural land, that is, of land borrowed as a machine for the production of such wealth as is obtained from its cultivation. Land borrowed in towns, whether to serve as sites for ordinary houses, or as instruments for purposes of business and profit, such as wharfs, ground for the erection of factories and workshops, and the like, falls into a separate category. The considerations which govern the conditions of the hiring are essentially different, if not entirely in principle, at least in form and manner of operation, from those which prevail with agricultural land, and consequently do not admit of being examined in a common investigation, nor of yielding common results and identical rules of action. Our concern here is with the rent of agricultural land as discussed in treatises of political economy, and with

the doctrine which is understood to be generally accepted respecting its nature and principle.

Let us begin from the beginning; let us commence with the fact of real life in its most concrete form. All true philosophical investigation takes its starting point in the complex phenomenon to be analysed. We will not, with Mr Mill, commence with a declaration about monopoly, for this is a doctrine to be established, a conception to be made good, an element to be discovered by analysis, and not the obvious and admitted condition of the transaction under examination. The thought occurs to few farmers in debating their rent with their landlord, that he enjoys a monopoly and is exacting a monopoly of price for the commodity he lends. As well might one begin with the idea of monopoly in considering what the price of a hunter is composed of when hired from a good stable. Nor will we, with Mr James Mill and Mr M'Culloch, speak at first about successive doses of capital, and diminished returns to increased outlay, nor about any similar assertions of a scientific character. The facts thus alleged are true; but to take them as our origin, or as primary elements, till they have presented themselves to our analysis as such, would be an offence against the laws of analytical method, and would be sure to involve us at the end in partial and consequently untrustworthy deductions. Let us follow rather the only trustworthy process; let us begin by laying hold of the concrete fact, and then placing it under the analytical microscope.

A tenant proposes to take a farm from a landlord, and the amount of the rent is debated between them. What are the conditions which govern the calculations on

both sides? What are the things which ultimately decide, whether there shall be any rent at all, and if there is rent, what shall be its amount? Plainly, undeniably, the one sole calculation which the farmer makes is, to use his language, on what terms he will be able to get a living out of the farm, that is in economical language, on what terms he will be able to realise the ordinary profits of trade and a fair remuneration for his labour and skill. Now, how does he make the calculation? for this is the vital matter. Most assuredly he will not compute how much the landlord has expended on the farm—he will not enter into fine reasonings about successive doses of capital, or about the ratio of returns which they have generated. He will not trouble himself with the financial history of the farm, so far as it records the outlays which have flowed from the landlord's pocket. He will not give a thought to the question whether the landlord has made a wise purchase of the land, or judiciously invested capital on its improvement. Nor will the landlord be in a position to enforce such considerations upon him. The determination of rent does not belong to the landlord, but to the tenant. The landlord must take what the general market for the loan of land will give. The attempt to exact more would break down by the refusal of tenants to engage in the business. In letting farms, the landlords are sellers of goods, but whether the goods shall be sold or not is a question to be settled, as in all markets, by the buyers.

The feelings then of the landlord have nothing to do with the problem to be solved in fixing the rent; the feelings, I mean, generated by his notions as to what

the financial past of the farm has been. The practical problem is always what the tenant conceives he can afford to give for the farm. The cost of making the farm, whether it was made by nature or by the landlord's capital, is no part of the calculation. The tenant who is weighing whether he can take the land, and on what terms, is utterly indifferent to the landlord's position as a capitalist. His mind is set on one thing only, his thought is absorbed by one single computation what the land will yield on cultivation, what the nett profit will be, all expenses paid, at the prices prevalent in the market. This is the problem, the only problem. The question may present itself to the tenant's mind, as being, how many shillings he can afford to give as rent for each acre of the land; but that is only a different form of the same real inquiry, how much the acre will produce upon cultivation, and how much of that produce he must insist on keeping for himself. The items, therefore, which enter into the estimate constitute the whole problem; and what are they?

The fertility of the soil is one chief element of the arithmetic employed, but it is not the sole element, and very often, indeed, not the dominant one. The overwhelming importance assigned to the relative productiveness of the land is the capital mistake which I am compelled to lay to the charge of most political economists in their exposition of the theory of rent. The temptation to fall into this error was almost irresistible; fertility was so manifestly a great ingredient in the manufacture of agricultural produce. Then it ran so easily and so delightfully into a scientific and theoreti-

cal form. First, the land which would only repay the cost of cultivation, without any surplus above ordinary profits, figured at the basis of the scale as No. 1. Then, a little more quality, a touch of superior productive power ushered in No. 2, with a rising rent,—and a charming series was constituted with a fine air of mathematical precision. If ever political economy was to be made out to be a strict science, here was the chance. But the ways of science are rigorous, it is apt to call for all the facts; it will recognise nothing to be theory which does not embrace them all. Is it true, then, as the fact which is to serve as the foundation of the theory of rent, that rent always rises and falls with the relative fertility and productiveness of the soil? we must appeal to our deliberating tenant; it is the thoughts in his mind which furnish all our data. What would his reply be? If every other circumstance is the same, then he will proportionate the rent he will pay to the exact variations of the fertility of the land; if the condition does not hold good, he will not.

Upon this supposition, the doctrine of rent laid down by Ricardo and most Political Economists, would be true. If every expense of cultivation were the same for two farms; if every charge borne by each of the farmers were precisely of the same amount, and if the sale of the produce of each farm realised the same prices, then the scale for measuring the amount of rent by the comparative fertility of the soil would be true and accurate. Then land No. 1—the poorest cultivated—would yield no rent; it would repay the cost of cultivation and nothing more. Land No. 2, by virtue of a better quality of soil, would produce a larger crop; it would bring

back a larger quantity of money from the markets, whilst its cost of cultivation would be identical with that of No. 1. No. 3 would render a larger rent by means of higher fertility, and so on all through the series.

On a single farm most of the circumstances of the farming are generally the same; hence the farmer will estimate the rent which each acre will bear by the goodness or badness of the land. But even here some disturbing forces will occasionally make their appearance. There may be fields particularly well suited for accommodating animals in the neighbourhood of fairs and markets. A tenant would take account of this circumstance in his mind, but so also will the landlord; and then, as an actual fact, a portion of the farm will be let for a rent not proportionate to relative fertility alone. A new element has come into play, a new consideration asserts itself, which puts a different rent on two fields which produce the same identical amount of grass each year. The grass of the one field sells for more than the grass of the other; and the difference of the selling price at once makes itself felt in the estimation of the rent.

If we now pass beyond the boundary of the single farm, the contrast created by the accessory circumstances will become more striking; the relative fertility recedes into the background as the determiner of rent. One farmer may wish to occupy two farms, one on the light lands of Surrey, another on the adjoining strong clays of Sussex. The crops of corn raised on each may be identical in amount; but Surrey will require but few horses, and Sussex will demand many.

He will treat with the landlord for each of these farms on separate bases; he will consent to a higher rent for the Surrey than for the Sussex lands. The expense of tillage would be much smaller in the one case than in the other, and the difference immediately attacks the amount of the rent.

If we travel on to the neighbourhood of London, the facts will become still more startling. Land of the same quality as much land in the counties will be found yielding ten or even fifteen pounds an acre; to what must such an astonishing difference be ascribed? To better markets, to ample supplies of manure, to cultivation by the spade, and to high prices readily realised.

We may take a still wider range of observation, we may pass on to the most distant corn fields which England possesses, the broad regions of Western America. There lands of the most wonderful fertility are brought under cultivation to feed the people of England, and I call them emphatically English fields, because political economy knows nothing about political divisions. It asks no questions about the origin of the bread which stands on English tables. The Australian and American corn is as much English corn as that grown in Lincolnshire or Sussex. Of these superlatively rich lands many pay no rent, and the reason presents itself at once. The cost of carriage eats up all that part of the produce which could generate rent. And it is not only against these distant regions that the element of carriage operates; we feel its power at our own doors. It cannot be disputed that railways and other improvements of locomotion have added consider-

ably to the general rent of estates. The fertility of the soil, as distinct from the manure applied to it, has remained the same, but cheap transport has given access to fresh markets, and rendered even the distant guano of Peru available for British tillage, has cheapened many an agricultural process, and rendered high farming possible in localities in which it was formerly unknown. And more still, be it observed, it has often improved rent on inferior soils relatively to those of high quality; it has raised them in the general scale, precisely because relative expensiveness of cultivation and inaccessibleness to markets had depressed them.

Again, what shall we say in our own country of the action of parochial rates on rent? Do they not certainly counteract the power of fertility to bestow an improved position on the landlord? The institution of Unions has equalised these burdens in comparison with the local pressure which existed some score of years ago; but the experience of our earlier recollections serves perfectly for illustrating the disturbances which parochial taxes can create in the calculation of rent. We have known parishes whose peculiar situation enabled neighbouring landholders to throw their labourers into the cottages of these parishes to the relief of their own; and the consequence was an unfair excess of population in such parishes, an undue number of legal settlements, and consequently a marked increase of the local rates. Indeed, it was said, that the cultivation of one parish in England was abandoned before the enactment of the new Poor Law, owing to the overwhelming pressure of rates levied for the maintenance of the poor. All the rent-generating fertilities of that parish were annihilated

in one common extinction. It is the same with tithes. Lands tithe-free always yield a larger rent, under equal circumstances, than those subject to tithe. Tithe, it is now well known, is a clear deduction from rent. That single fact of itself is a complete demonstration that a doctrine which makes the relative fertility of the soil the essence of rent is only a partial summary of the elements of the problem, and therefore an inadequate and unscientific theory.

We thus reach the conclusion established by this evidence. Relative fertility is not the exclusive basis of rent, but only one of its elements, and in many important cases not its dominant element. When the other forces which act on rent are equal, then, no doubt, it is the regulator of rent; but these forces vary without limit, and by varying they modify, enlarge, diminish, or not unfrequently extinguish rent altogether. Fertility, by itself alone, will not furnish the theory of rent. If we wish to understand its nature and the causes which increase or diminish its amount, we must go back to our tenant-farmer who is examining the farm which is offered him; we must enter into his mind, and accompany him in his calculations. We have seen that he will judge the capability of the land to yield produce. He will form an estimate of the quantity of that produce under the tillage which he proposes to apply. Here it is that fertility plays its proper part; it will determine what yield the skilful farmer may reasonably expect to obtain. But when this first point is ascertained, another immediately comes into view; what will be the expense of cultivation at that particular spot? A multitude of considerations now burst on the farmer's attention.

How many horses will he require? How many labourers, and at what wages? Then again, what is the amount of the tithe, the burden of the parochial rates, their probable increase or diminution? Manures next call for consideration: is the farm near a town? has it facilities for procuring guano? is it near to a railway station, and will the cost of carriage be large or small? Then, how far must he send his corn to market? Must he encounter a long transport by sea or land, as the fine wheat which is grown near Inverness and is sent up for the supply of Mark Lane? These and many similar items under the great head of expense of cultivation will occur to his thoughts, and will have to be calculated before he can satisfactorily determine the rent which he can afford to pay, and they are wholly irrespective of the relative fertility of the soil. He may, and if he is a skilful farmer he will, combine the two elements together, and come to an opinion as to the capacity of the land to be grateful for the capital laid out in its culture; and, assuredly, on that very ground he will prefer to pay a high rent for good land rather than a low rent for poor land. Still, the two considerations are distinct in themselves, and in the estimate he makes of the power of the land to repay high farming the cost of the improved cultivation in that particular locality will carry great weight in his ultimate judgment. The proximity, for instance, of coal and lime may largely influence the conclusion adopted.

The yield of the farm and the cost of cultivation having been estimated, the farmer now reaches the third stage of the analysis. At what price will the produce be reasonably expected to sell? What are the

average prices of the several kinds of agricultural products which rule in the markets? He cannot deal satisfactorily with his landlord unless this vital condition be as far as is practicable ascertained.

At this point the peculiar nature of rent discloses itself. A farm is a machine let out on hire, but its remuneration is calculated on a peculiar principle. When a ship is hired on freight, or a horse and cart are procured for a day's work, the price of the loan follows the general rule of most markets; it is regulated by the cost of production, by the expense incurred in making and maintaining these instruments, with reasonable profit for the lender. It is not so with the letting of land. The rent which the landlord receives bears no direct or necessary relation to the cost of purchasing and preparing the soil for tillage. Whether the landowner has spent much or little on the land matters nothing in itself; the sole question is, what is the capacity for producing which the farm possesses—whether that capacity has been acquired from nature, or from the personal outlay of the owner? what is its work as a machine? The arithmetic between the landowner and the tenant runs in a totally different groove from the cost of making the machine; it is an inquiry whether there is a surplus of receipts after the cost of cultivation has been repaid and the farmer has obtained the ordinary profits of his trade. If there is such a surplus, it belongs to the landlord, on the simple principle that if this tenant will not take the farm on the terms of handing over this surplus some other tenant will.

But is there such a surplus? The universal fact that land pays rent replies that there is. Then

how is it that such a surplus exists? In ordinary trades the prices at which goods are sold yield no such surplus; they furnish cost of materials and tools wages, and profit, and nothing more; how comes land to exhibit so remarkable an exception? Political economists have answered this question, and they have done a great service to knowledge and also to public feeling on so important a matter by the accuracy of their reply. The cause of rent is found in the price of agricultural produce, which is not lowered down to the point of simply replacing cost of production and profit, but is high enough to give an excess, and that excess is naturally claimed by the owner of the wealth-producing instrument as his own. The cotton-spinner of Manchester sells his yarns and the gunmaker of Birmingham his rifles at prices which repay the cost of making them with a legitimate profit for themselves. The farmer does precisely the same. He holds the same identical position with these manufacturers. Like them, he is content with prices which repay all his expenses, and bring him the natural reward for carrying on his business. But on selling his corn and his cattle he gathers up more money than is required for these two purposes. The excess he is quite willing to hand over to his landlord. He is satisfied with doing business on the same terms as the Manchester and Birmingham millowners. But the millowners find no surplus in their hands, after receiving cost of making and profit: the farmer does find such a surplus. Thus the great fact comes to light that rent does not raise price, but price, by being high, creates rent. This is the cardinal truth respecting rent.

This fact is capable of being described as the effect of the arbitrary demands of the landowner, as the result of a monopoly enjoyed by him in the production of certain commodities indispensable to the community, as more or less an exaction depending on his pleasure and regulated solely by his ideas, so as to raise the largest possible sum out of purchasers. Such a conception is entirely erroneous. A time may come after the revolution of many ages, and such a time occurs often now in blockaded towns, when the owners of food and of the means of producing it will be able to extort monopoly prices from the community; but such a condition of human life has no existence as yet in the world. The price of food which governs rent is not an arbitrary requisition made by those who can dictate terms of purchase to men who must either buy or starve. It is founded on a natural fact over which the landowner has no control. In England the price of wheat is determined by the price which the man who produces under the most unfavourable circumstances must obtain, if he is to send his supplies to the English market. England cannot produce bread enough for her wants; she must make up her deficiency by supplies sought in every quarter of the world.

Let us suppose that the corn of the American farmer in the far West is indispensable for the maintenance of the lives of the population of England, and that the loaf made with his wheat cannot be set on any English table at a lower price than fourpence. A standard of price is instantly obtained, founded on the general, though not universal law, mentioned by Professor Jevons and others, that there is only one price

for the same commodity in the same market. Every English farmer will then demand fourpence for each of his loaves, for he is not under the slightest compulsion to undersell the American, and if the consumers refuse to give him the American price, he has only to withhold his corn to reduce them to submission.

Thus the price of the corn is established by causes over which the landowner has no influence. The cost of placing an American loaf on an English table fixes the selling price of all the loaves in the English market. Then comes the process of computation between the landlord and the tenants. To one he says: "You can produce loaves at threepence halfpenny each, I shall require a halfpenny of rent on every loaf your land is estimated to produce." To another he lays down that with the help of superior fertility and other advantages, whether of carriage, manure, or the like he can produce loaves which will give him just remuneration at threepence, and he will demand a penny of rent per loaf, and the demand will be complied with. The only question with the tenant will be whether at the price of threepence he will acquire the reasonable profits of his business. He may debate the accuracy of the landowner's estimation of the yield of the land and of the cost of cultivation; but when these are ascertained to be correct, he will not, from any motives extraneous to the pure arithmetic of the transaction, refuse to accept a farm which another will be eager to take.

One fact more, however, must be noticed. A portion of the rent of a farm, in most cases relatively small, clearly partakes of the nature of interest on capital expended by the landlord. If he has spent money on

draining, repairing gates and farm buildings, and on other matters necessary for cultivation, he cannot but consider that a part of what he receives is compensation, as interest, for this outlay. In the calculation which the incoming tenant makes of the rent which he can afford to pay, this expenditure of the landlord's capital will figure as a diminution of the cost of production or as an increase of the produce which will be realized. The process will always be that described above, only in the one case the tenant will set down the estimated cost as smaller, in the other he will make a larger estimate of the yield of the farm. In both alike, the landlord's application of capital will bring him more money, and consequently he will be able to afford a higher rent, and the landlord will be able to enforce it.

This theory of rent is accurate, because it takes account of all the facts and places them in their proper relation to each other. But it is scientific in a very different manner from the much vaunted theory, which has been so groundlessly made the pride of political economy. Rent is the result of many forces and not of one. The boasted doctrine of rent was merely the brilliant statement of the action of one force only. It thus could be constructed symmetrically; the varying rents paid for land could be co-ordinated upon a single principle, and by its simplicity and beauty it charmed the imagination like the formulas of gravitation or chemistry. But unfortunately it did not quit the region of the imagination. The rents assessed on lands refused to obey a single principle. The first farmer who heard it would ridicule the notion of all the land of a

county, much more of all England or of all the world, being settled by the question—what is the degree of fertility? It is No. 5 land in fertility, it must pay No. 5 rent. One has only to take that rule into the land market to be laughed out of it as a dreamer.

The eminent men who have treated of rent have not been ignorant of these facts. They have spoken of situation and other influences; nevertheless, they have struggled to leave the impression of a graduation of rent upon one principle, and though they have protected themselves against the charge of actually ignoring facts, they have taught the world to believe that political economy had discovered a beautiful theory of science, which could shed illumination over each and every settlement of the complicated inquiry, what the rent of a farm shall be. The mischief resulting from such an erroneous suggestion is always considerable, for it brings discredit on political economy as a science fit for theorists but as little corresponding with the facts of the living world.

The accurate statement of the doctrine of rent is a valuable and useful explanation of the many elements of an intricate practical phenomenon, but it furnishes no rule which can be made to govern all its complications. It tells us what the facts are, and in what connection they stand with one another; but it leaves the landlord and the tenant to their practical sagacity and to arithmetic alone, for determining the actual rent which shall be paid for the farm. The relative importance to be assigned in this calculation at a given place to fertility, the number of horses and labourers to be employed, the rate of agricultural wages, access to markets, manure,

and coals, the burden of tithes and poor rates, is utterly beyond the power of political economy to prescribe, yet, they are the very facts which determine the ultimate figures.

The preceding explanation of the nature of rent shews the relation which it bears to tithes. Some few years ago, at the time when the disestablishment of the Irish Church was under debate, much discussion arose as to the incidence of tithe. On whom did it fall? Who was the person who really paid the tithe due upon the farm,—the farmer or the landowner? The question can be decisively answered by the help of the analysis here given of rent. Tithe is a charge which must be met by the tenant who occupies the land. In the calculation above described, it will figure in the cost of the farming; it swells the expense at which the crop is raised. It will take its place by the side of poor-rate, or any other payment which must be encountered. It will be set off against the amount of money realised by the cultivation, and will diminish the final surplus which constitutes rent. Hence it necessarily follows that if the tenant was relieved from this charge, the surplus, which exceeds his proper profit, will be increased, and the whole of that surplus so increased will be claimed by the landlord. It could make no difference to the farmer whether he paid the same sum as tithe to the clergyman, or as additional rent to the landlord. His estimated profit, in either case, would be identically the same.

It remains to notice one point which has not been spoken of in the preceding discussion. Writers on rent have for the most part assumed that there is agricultural land which yields no rent, and they have assigned great

importance to this kind of land as furnishing the standard with which the rents of all lands is compared. This land, they allege, does nothing more than repay the expenses of cultivation; it generates no surplus which the landlord can claim as rent. Its bearing on the rents of other lands consists in its fixing the price of agricultural produce. Its products are required and will be bought; and consequently the selling price must be sufficiently high to maintain and repay its tillage. It thus determines the minimum of agricultural prices; they must be at the least high enough to bring the produce of this land to market.

This assumption is correct. But the question immediately arises, where is this non-rent paying land to be found? Not in England, certainly. It is open to very serious doubt whether a single acre of cultivated land exists in England which yields no rent whatever to its owner; which he must either cultivate himself, obtaining from it only the ordinary profits of business, or else give it over to a tenant for nothing. I have never heard of the existence of such land, its position has never been pointed out, and even if a few acres of barren moor could be found which were tilled and yet gave no rent this would be utterly destitute of all importance, of all influence over the rents of other lands; their quantity would be too insignificant to have any such effect. The lands which pay no rent, and yet fix the price of English rents, exist in America, and possibly in Russia, on the extremities of the outer ring of that tillage which supplies England with any considerable amount of food. They may be lands endowed with great fertility. Indeed it can be scarcely questioned that fields situated at such

vast distances from the market, compelled to encounter such enormous cost of carriage, and owing to the scantiness of the population which cultivates them deprived of the resources of powerful agricultural machinery, must possess a high power of producing, if they overcome such formidable disadvantages. These are the regulators of English prices, the governors of general English rents. We may possibly add the names of Australia, the Pampas, and even India to the list, if ever chemical science succeeds in placing the meat and corn produced by these remote countries on a level with those of England.

The high fertility of the distant lands from which England now procures a large proportion of her corn illustrates in a striking manner the fallacy of the Ricardo doctrine of rent. By founding rent on fertility, he necessarily implied that a rise of rent followed on the taking of inferior soils into cultivation. Land A, which previously repaid only cost of cultivation, and yielded no rent, now resigns its place to an inferior soil. Its produce is somewhat larger than this newly introduced land; the excess is rent. Land A now becomes land B, and every degree of fertility changes its letter. There is a rise of rent throughout the whole series. Hence the repeal of the corn laws was bound to lead to a fall of rents, for the land A of England could not be cultivated in competition with the better soils of foreign countries and their lower prices. So the landowners believed, and accordingly they resisted the abolition of protection. But what are the facts exhibited under the action of repeal? The lands which send corn to England possess, for the most part, very elevated degrees of fertility; but

English rents are higher, and not as they were supposed to be upon the theory, lower. Repeal has raised rents. The cost of the American loaf is higher than the English loaf, but not from inferiority of fertility, but from expense of carriage. On the other hand, the English landowner has to deal with a population wielding a broader and more profitable trade; and he gathers up increased rent by supplying many wants, such as milk, butter, meal, and other articles, which a larger and richer population demands and can afford to pay for.

Much has been made in treatises of political economy of the successive applications of capital to the same land, the diminished return for the outlays, and the consequent effect of this law upon rent. The principle is true, and the law is certain; but I cannot hold them to have any serious importance in the present state of the world. If the supply of food for the population of England were restricted to the fields of this island, it is beyond doubt that this law would instantly acquire tremendous significance. It would be hard to predict what height agricultural rents would reach under such circumstances. But thanks to steam and free trade, the fields of all the world are the fields of England; and many centuries will pass away before the diminished returns to successive doses of capital can have any practical importance.

The doctrine of the diminishing returns, obtained by successive applications of capital to land, entered for much into Mr Mill's view of the rise of rent; and it is open, generally, to the remarks just made on Ricardo's principles of relative fertility. Rents rose in England upon the repeal of the Corn Laws, though the grain

on which the country feeds is grown on lands on whose cultivation but little capital is bestowed. Mill committed a kindred error with Ricardo. He thought only of the expense of tillage, as Ricardo thought of the quality of the land ; they both forgot that the determining force here was cost of carriage.

I cannot conclude these remarks without saying a few words on the term "monopoly," which has been so freely and, I may add, so passionately applied by some political economists to the possession of land. I must protest against the use of so invidious an epithet in respect of property in land. The word "monopoly" suggests a wrongful and odious usurpation. It is associated with feelings of injustice and dislike. It carries with it the idea that a wrong is enacted at the expense of the community, a wrong deserving reprobation and to be abated. The associations connected with the epithet have a well-known and legitimate origin. A monopoly is a restriction created by the law on the carrying on of a particular trade in favour of individual citizens to the exclusion of the rest of the community. Such a preference is by its very nature unjust, and it works immense mischief by the inferiority of the goods thus produced and their dearness. Monopolies existed in past times, and we all know how the spirited resistance of the House of Commons against the great Queen extinguished them in England. The memory of them has remained hateful in this country; but I hold it to be most unfair to insinuate by the use of the word monopoly, that the possession of land has any affinity whatever with those artificial and justly-condemned preferences and restrictions.

Mr Mill qualifies the expression by adding to it the word natural; but the sting which is inseparable from the word monopoly remains all the same. The arbitrariness with which it is applied in the case of land will be seen, if we think of how many natural advantages there are of the same general character with that belonging to land, to which no one ever thinks of attaching the word monopoly. The skill and eloquence of a great barrister, the art of an eminent brewer, the talent of a distinguished writer, and endless other personal gifts, are natural monopolies in precisely the same sense as land; but who ever thinks of fixing such an invidious name upon them? Yet, they resemble the possession of land in the distinctive quality that they enable their possessors to raise considerable sums of money out of the community. Oh! but they are subject to competition; anyone may rival or surpass them, if he pleases. I should rather say, if he can; and he cannot, because we are supposing these monopolists, to apply Mr Mill's words, to possess the highest existing advantages.

But equally subject to competition are the owners of rent. The repeal of the corn laws might have reduced their incomes; and if ever Australia and America contrive to send cheaper meat that will be accounted the equal of English meat, assuredly the effect on rents will be real. And further, let it be well observed, the possession of agricultural land is distinctly free from the vices of a genuine monopoly; it neither raises price, nor deteriorates the goods produced. If private property in land were abolished, the price of the loaf would not be a fraction lower, nor would the wheat grown and the

cattle reared be better or cheaper than those we now obtain. The only difference would be one of ownership; the State, and not private persons, would own and receive the rents.

It is perfectly open to Mr Mill and those who share his feelings, to propose that the present landowners should be paid off, and that the State should be the one sole landowner in the nation. Whether that would be a wise or mischievous policy is fairly open to argument. So is communism. Communists may rationally discuss whether it would not be expedient that Mr Mill should devote his great talents to the service of the commonwealth, and accept equal remuneration with the citizen who carries bricks for building. But in neither discussion could the idea of monopoly enter. It may be determined that the nation would reap large benefit from great abilities being allowed to exert themselves for the benefit of their possessors, and that private property in land would be more advantageous than public. If such be the decision, the private owner, who, either through his predecessor or through his own efforts, has developed the wealth-producing powers of the machine paid for or inherited, is no more to be branded with monopoly than the great author who has so cultivated the gifts with which nature endowed his mind as to realise large pecuniary results from the sale of his writings.

CHAPTER XI.

MONEY—METALLIC.

MONEY is a matter which deeply affects the welfare of mankind. It is an instrument which has been found indispensable by every nation which has passed beyond the savage state. It is a tool of man's own invention, devised to accomplish very important public purposes. Unsound money, ill-constructed for performing its work, may, and does at this hour, inflict enormous losses on great countries, often with severe injury to every one of their inhabitants. It seriously concerns therefore all men to understand correctly the nature of this tool, the ends which it is required to serve, and the principles on which it must be made. Yet, in spite of the immense interests involved in the employment of good money, it is a machine on which the most deplorable confusion of ideas prevails. It may almost be said that every man contradicts every other man about money, about what money is and what it is not, what it can and what it cannot do. In no other subject which occupies the thoughts of men does anything approaching the same disorder exist.

The cause of this wonderful phenomenon is the fatal facility with which men think themselves authorised to pronounce about money, without any feeling of responsibility for previously discovering by examination and analysis what are its nature and functions.

Every ordinary maker, before giving orders for the construction of a machine, places distinctly before his mind the precise work which it is intended to perform, and the particular contrivances by which the machine will effect it. The makers of money, the legislators who bestow a particular kind of money on their people, and the men who supply them with doctrines and views, act on the vaguest and most irresponsible ideas as to the exact work which the money shall perform and give themselves no strict account of the precise contrivances by which the money shall fulfil its ends. Thus money becomes a subject on which men permit themselves the most unbridled licence of thought and doctrine, and thus also in the case of an instrument of universal use, the question, What is money? is found to be one of the hardest which one human being can put to another. A plain, intelligible, consistent answer seems to lie beyond the reach of hope.

We must endeavour to pursue a different course. We must employ the method which is the one source of true knowledge, and if we apply it with strictness, if we are faithful to it with unbroken loyalty, we may confidently hope to arrive at certainty and clearness. We must take up the facts of money and analyse them. Analysis will remove the confusion and reveal the truth which it smothers.

Let us then take a coin,—a sovereign. All the world is agreed to call it money. It is a positive concrete substance. Its very derivation discloses its origin, how it came to be born into the world. This sovereign is a piece of metal which has been weighed, shaped and stamped, as coins were of old in the Roman mint, the

temple of Juno Moneta. For what purpose was this coin, this sovereign, thus made? For one only: to buy with it. It has no other *raison d'être*, no other object or utility, but this one single motive—to be employed in buying. But what is buying? how does it buy? By being given away to an owner of some other article, who is willing to take it in exchange for the article he sells. It will be said, and quite truly, that this money is used also in paying debts, or it is kept in reserve, but this fact makes no change in the truth that the sole reason for making the sovereign was to buy with it. The sovereign which discharges a debt pays for an article which was previously bought and not paid for at the time of purchase, and a sovereign stored up in reserve lies waiting in idleness for the moment when it will be summoned to buy or to cancel a debt.

Further, it is plain that the man who sells goods for money, for the sovereign, intends to use that sovereign precisely in the same way as the man who bought of him did, when he gave him the sovereign for his commodities. He means to buy with it in turn. The money is useless to him so long as he retains it. He took it solely with the intention of buying again in turn something else for himself. Thus money constantly passes on from hand to hand. In economical language, it circulates, and the more it is in movement, the more hands it passes through, the greater is the work it performs. Hence the expression currency, from *curro*, I run. Money runs, moves up and down the town. Its duty is to circulate, not to be buried in hoards, by whatever name that may be called.

These statements are so simple and obvious that they

might be called truisms, but truisms, it must be repeated, are some of the most powerful intellectual forces known to man. Those here stated are full of instruction. Moreover they kill off at once half the mischievous delusions and absurdities with which the world is deluged on money.

They tell us, in the first place, that a coin, money, does its work by being given away. That is the one characteristic of the machine. It has one function to perform and one only—to leave the hand of its owner and to send back to him something else in its place. When it does not perform this work, it is for the time useless, an unemployed tool. The process of buying with money is an exchange: an exchange of a commodity for a coin. Hence money is in reality the tool of exchange, and nothing else. It is not a thing sought for its own sake, to be used or enjoyed by its possessor. It is a means, not an end; a tool procured for rendering a service, and valued, like all other tools, solely for the sake of the useful service which it renders. This conception of money as a tool is radical; it governs every thought, every word to be employed about it. No one has any other conception of a chisel than that it is a tool; consequently no nonsense is ever uttered about chisels. If money was never thought of but as a tool, the world would be rid of heaps of foolish speaking and writing poured forth by acute and subtle theorists.

In the next place, the sovereign reveals to us that the tool of exchange is made of an extremely valuable metal, far more costly than the iron of the chisel. A large quantity of property must have been given to miners in order to procure the metal of which

sovereigns are composed; on no other terms could the gold have been obtained. Gold is found in small quantities compared with the expense of mining for it; hence gold is dear; iron under the opposite condition is cheap. The man, then, who has acquired possession of a sovereign has necessarily bought it with a substantial amount of other property. Whether he got it direct from the miner and caused it to be stamped in the mint, or whether he procured it in any other way (excepting always, of course, by gift) he has had to pay for it, he has given other things in exchange for it. This is the universal law of all tools. They cost some expense to make; they must be bought and paid for, whether obtained from the maker or through shopkeepers. The bearing of this truth on the common idea that money is in a peculiar sense riches—that the object of all trade should be to obtain money—that consequently the trade which exports more goods than it imports and brings in the difference in gold is the truly beneficial trade—that gold is a possession more to be rejoiced over than any other by every nation, is obvious; so full of instruction, and so destructive of these widely-spread doctrines is the simple fact that money can be had only by purchasing it with an equal value of wealth given for it in exchange.

And now the question presents itself—Why is such a tool as money needed for exchanging? Why is buying with money so absolutely necessary a proceeding that every nation in the past and the present has employed money in some form? Why cannot goods be exchanged for goods without the intervention of money? The usual answer given to these questions in economical

writings is that a measure of value was needed, but it is impossible to suppose that the use of money owes its origin to the perception of so remote a want. Money must have been in existence long before so abstract an idea can have been entertained. The savages who first took to cowrie shells were hardly up to such a thought as comparing goods with one another. A common measure was the consequence, not the motive, of the use of money. The need of money was one of the first wants of the social life itself of mankind. Without its help the development of society would have been brought to a stand-still. Money was invented to surmount the otherwise most formidable of difficulties, that the man who wished to acquire from another some article that he wanted might not have anything to give in exchange which the other desired or would be willing to accept. The tailor might starve before he could find a baker that was in want of a coat.

Division of employments is the fundamental law of society. The providing of the multitudinous things which human life consumes is distributed naturally and necessarily amongst special makers. No one above a savage supplies all his own wants; he must have many things made for him by others. By what method then can he obtain these things produced by others? By exchanging only; by giving to others what he made for them in exchange for what they made for him. But, for exchanging, each party to it must desire the article which the other offers, or he will refuse to exchange. This dilemma might arise with every article needed. To overcome this difficulty, a difficulty which would have been fatal to

civilisation, money was invented, and it removes the obstacle perfectly. The action of money substitutes double for single barter, and the difficulty is instantly conquered. The impediment to exchanging was that one of the exchangers might not want the article offered by the other; the solution consisted in interposing a third article for which each of the other two articles might be separately bartered. "Go and barter your sheep for money!" cries the grocer who did not want a sheep and would not have known what to do with it; "then bring me that money, and the groceries shall be yours." In other words a sale for money enables the seller to select for himself in any shop any article that he desires. That is the action and the essence of the use of money. A sale for money is thus half a transaction; the exchange is completed only when the grocer has obtained with the farmer's money at his own choice one of those commodities which was his motive for engaging in the sale of groceries.

We now see the mode of action of the tool, money. By its help a sheep was exchanged for groceries, and the money travelled, circulated, through the hands of four men, the man to whom the sheep was sold, the farmer, the grocer, and the man of whom the grocer bought something. The point to notice is that all four felt persuaded that other people would be as willing to sell, to exchange for money, as each of them was. Without such a confidence, they would not have given away their substances for what was useless to them except for exchanging. This confidence rests on voluntary consent, for no one is obliged to sell for money; and that consent proves to be universal.

But what is the foundation of this voluntary consent to take money? The guarantee furnished by the coin that the seller shall be able with it to purchase other things of equal value with those which are being given away for the coin. And here comes the critical, the vital point of all the use of money. That guarantee consists in the value of the metal, as metal, of which the coin is composed. The gold in the sovereign is itself, as a commodity, worth the sheep, and worth the groceries. This is the essence of all true money, of all sound currency. Money is inexplicable, is senseless, on any other supposition. The action of money as a tool is to give value for value; that is its work as truly as to cut is the work of a chisel. And it is because value is given for value that every tradesman in the town will part with his goods for coin. It is the value of the metal, gold, in the metal market which makes the sovereign a tool that can work. And thus the exchange of a sheep for groceries is accomplished by double barter, by the agency of two half-transactions—the incomplete operations of giving the sheep for money, and the money for the groceries. To effect an exchange by two half-operations—that is the function of money.

A strange delusion is widely prevalent on this matter. It is the stamp impressed on the coin, men say, which gives it its value as money. It then becomes a pound; and a pound derives its power to buy from the fact that an ounce of gold is coined at the Mint into £3, 17s. 10½d. The magical value resides in the word pound; and it is the Mint by stamping the gold which converts it into pounds. The absurdity of these assertions is almost too great to require refutation. If the stamp

gives its value in purchasing to the sovereign, then why should not the sovereign be made of copper, and be pronounced a pound, and be declared to be entitled to buy the same quantity of goods in the shops as the golden one? How would the shopkeepers treat the copper sovereign of the Mint? For the copper sovereign one apple, for the golden one four or five hundreds. It is as a commodity that a coin buys, and it is its value as a commodity in its own market that settles how much it can buy. This great truth was seen by Aristotle, who wrote, that "men for exchanging agreed to give and take one of the useful things." The whole truth of currency lies in that assertion. A commodity has ever been the instrument of buying, the tool of exchange. In one country furs, in ancient times cattle, sometimes rock-salt, at this day amongst the Tartars small cubes of compressed tea, in the West of the United States corn, in lonely places, is accepted as money for the stores of all kinds sold by a merchant. That it is the metal which buys in a sovereign is demonstrated at this hour by the fact, that sovereigns for which foreigners have parted with their goods are melted down constantly into ingots. It is the intrinsic value of the metal, its cost as a commodity, which does all the work of a coin. When asked what is a pound, the Mint replies, that—given that twenty shillings make a pound, and twelve pence a shilling—a pound is that part of an ounce of gold which will produce £3, 17s. 10½d. for the whole ounce. In other words, a pound is so many carats' weight of gold. The sovereign, then, is made to contain that number of carats, and the law holds that a sovereign and a pound

are the same thing, and that when a debtor is summoned before it, he shall be required to pay as many sovereigns as there are pounds due. The law pronounces a sovereign to be the legal tender for a pound; and this amounts to a declaration that a pound and a sovereign are two words for the same thing.

All Mints impose a stamp on the coins; for what purpose? To give information; to make known, on the word of the government, that the sovereign, dollar, or franc, is made of standard gold or silver and possesses the requisite weight. In the words of Aristotle, a stamp is impressed on the money to relieve men of the trouble of measuring it; or, as Mr Adams has well phrased it, "to save every man the trouble of carrying about with him a bottle of acid and a pair of scales." Ingots are tested before they are received in payments; a stamped sovereign or dollar tells every one what it is. Nothing can be more obvious than this fact; yet, strange to say, many intelligent men are puzzled to say what the stamp it bears does for the sovereign.

Although any commodity, in principle, may serve as the tool of exchange, practically every nation that could obtain the precious metals has employed them as money. They had excellent reasons for the choice. Gold and silver are very portable, that is, they are light compared with their great value, clean to handle, beautiful to look at, go into small compass, are hard and therefore enduring, retain the marking stamp easily and long, and are extremely divisible. They bear being cut into coins of different size with values proportional to their weights. When much worn they retain a real value up to what remains of metal in the coins. If no

longer required for money, they are readily convertible into pure metals, retaining the full value of their weight as commodities for use. Lastly, the precious metals retain in an eminent degree the greatest of all the requisites of good money, steadiness of value. The essence of the action of money lies, we have seen, in the guarantee it gives for being able to purchase other goods of equal value with those sold; a changeable guarantee breaks down in its most vital quality. Every contract, every debt, supposes that the value understood at the time shall be paid when due. Absolute certainty on this point unhappily is not obtainable; because there is not a single commodity which is not exposed to some fluctuation of value. Gold and silver experienced an immense change upon the discovery of America. Gold is believed by economists to have lost value in consequence of the mines of California and Australia; but that has not yet been proved. Silver undoubtedly has recently fallen to a lower level, and the world has perceived the gravity of the danger and of the loss to India and other countries. Still, the truth remains that the money which is made of the steadiest commodity, if really available, is the best; and the formidable task of seeking some other money than gold and silver has not yet pressed upon the minds of men. And it must be remembered that the suddenness of the change is the chief aggravation of the danger and loss. A metal which altered largely but very slowly in value, would affect few persons except permanent holders of public stocks and other perpetual debts. For ordinary sales and debts, a metal which drooped a little, say every ten years, would injure few persons seriously.

These weighty considerations combined have prevailed in establishing metallic coin as the universal money of civilised nations, whether as the currency in actual use, or as the basis of paper currency which professes to give a right to claim coin.

The right of coining was long regarded as a prerogative which exclusively belonged to the State; but here, as in many other departments of the political life of the nation, public opinion has undergone a great change. Every institution and every right derive their authority ultimately and solely from the will of society; and may be modified or abolished by its decree. However, the exclusive right of coining is in no danger of ever being taken away from the National Mint; the assignment of this function to the State is founded on a principle far stronger than prerogative. The State can execute the work best; and that reason is decisive. The free circulation of money rests on faith, on the belief that the money is good, that the coins are made of pure metal and of the right weight. The State can furnish the most authoritative attestation of this fact, at least in these modern days, when kings are no longer able to adulterate the coin of the realm. Ingots, indeed, are used as a kind of money, and the State gives no warranty for their purity; but then they are put into movement by mercantile firms of great repute, have a very limited range of circulation, and are incessantly tested for purity and weight.

That the circulation of coin depends upon belief in its good quality receives a singular illustration from the common fact, that a bad sovereign circulates and does the work of money as well as a good one, till it is found

out. Coin works, not by means of its physical qualities, but by faith in its value. A seller who takes a sovereign believes that he is receiving a piece of pure gold of ascertained value. He relies on that belief; and he finds in it the assurance that he will be able, in turn, with it to procure other articles worth those which he has sold. The bad sovereign, so long as it is undiscovered, supplies this belief; and it may perform the function of currency perfectly well till the absence of the gold, of the metal which inspired the confidence, is discovered. The last holder then finds that he has lost a pound. The supposed gold is not present; the value is non-existent. There is no guarantee furnished by the counterfeit; it cannot perform the work of money, which previously it had done so well.

We now reach the second great benefit conferred by money; it furnishes a common measure of value. It was invented to get over the perplexity of exchanging and distributing the products of industry which direct barter presented, that one of the exchangers did not want the article offered for what he had to barter away. So all things were first bartered for money; and the money rebartered for other goods. Hence, as a necessary consequence, every article acquired its price. The seller calculated its value in money, and that value, so estimated and realised, is price. Since every article has its price, their prices can be compared together, and their values, as against one another, can be ascertained. Thus money is the standard of measurement of values, as a yard is of length, and a pound of weight. We know how long a distance is by measuring it in yards; in the same way

we know how valuable commodities are by measuring them in money.

But we must be very careful not to fall into a confusion here, which is only too common, and of which we have seen an instance in connection with the word pound. Money does not determine value; it only expresses it when determined, when it has become market value. Value, as was shewn in a former chapter, at its origin is a feeling, as expressed in the words, I value; that is, I esteem and care for a thing; I will make a certain sacrifice to obtain it, or I will retain possession of it, unless tempted by the offer of something for which I feel a little greater regard. The maker or owner on the one side (and the motives which act on his feeling may be most numerous and varied) decides how much he must receive in exchange before he consents to part with his property. When he proceeds to sell, he meets a counter feeling, a counter estimation of the values of the property and of the money in the buyer. The resultant of these two forces is the market-value of the commodity at the time. In the exchange, the gold and the commodity are valued on identically the same principles; the money is as much bought as the coat it purchases. The tailor prefers the money, and what it can buy, to the coat; the purchaser prefers the coat to the money. The values of the coat and of the money are estimated separately by each of the parties, with a difference of preference, a difference of feeling and of esteem.

This equality of the buyer and seller leads up to the question—What is the market value or price, so to speak, of gold? Put in this form, the question admits

of no single answer. The market-value of a sovereign is a hat for the hatter, a pair of shoes for the shoemaker, and so throughout all things sold. But the answer we are in search of will be found in the analysis of what is implied in an act of barter. The value of gold to the hatter is its cost of production, every charge included. The value of the metal of a sovereign is its cost of production to the miner. The two costs of production being supposed to be the same, the market-values of both become identical. The market-value of the sovereign is what it cost to produce, which cost, if not paid, there will be no sovereign made.

We come now to a question of which it is scarcely possible to exaggerate the importance. The question is thoroughly natural and simple; no one can possibly deny that it is one most proper to ask and most deserving of an answer. Nevertheless there seems to be on every side an universal impossibility of understanding, — nay, a wilful determination not to face, — its meaning, and not to insist with one's self to give it a clear and thought-out answer. The man who can answer it rightly is master of the true nature of currency; he who gives the wrong answer does not know what currency is. How much money, how many sovereigns or dollars, does a country want? The question is absurd, cries the multitude; how can man or nation have too much money? Money is riches; money can buy everything. What can be better than an export trade, exclaims the merchant, which sends back solid profit in the shape of gold? When there is plenty of money, cry the shopkeepers, trade is brisk; customers come in and buy. Every arrival of gold in England

is carefully noted by all the city articles of all the journals; the banks are stronger, and the rate of discount is sure to fall.

Thus the rejoicing runs round the world; but this language is eminently loose and untrue. It absolutely forgets that money is a tool and nothing else. By that truth it must be judged. What would be thought of men shouting with delight over never-ending importations of carts? They would be regarded as insane, if England had already carts enough for her wants; in what respect would she be the richer or the better by more carts than she could find employment for? But one can buy with money, it is replied; one cannot buy with carts: the more money, then, that a country has, the better. But if there is enough money to buy with, what good is obtained by purchasing more money? It is ever forgotten that money has always to be paid for, just as much as a cart. There is the same practical, common-sense rule for money as for carts. It is highly desirable that there should be money and carts enough for the work which each of them has to do. To be short of carts to transfer weights would be very inconvenient, and might be very harmful and unpleasant; to be short of the machines which transfer the ownership of property might also be embarrassing, but not nearly so much as a deficiency of carts. In the old days, the want of silver coins wherewith to pay wages on Saturday nights often brought great trouble; and premiums were readily given for bags of silver coin. But banks and other financial machinery would quickly come to the help of a scarcity of gold. Few instances could be cited of England suffering from a mere deficiency of gold, as distinct from

the loss of wealth by trading, bad harvests, or other causes.

The law of supply and demand is supreme over money, and gold used as money, as over all other tools. They are useful to the extent that they are needed for the special work they have to do; all above that is excess and useless. Unneeded gold brings no wealth; the glorious ingots which have reached London have not made England one pound the richer. They have been paid for with English property of equal value; there has been an exchange of English goods for gold; is one side the richer for the operation, and the other the poorer? That would be a strange trade indeed, in open contradiction with every other. Spare money, no doubt, is desirable, just as spare hats and spare shoes, to guard against the inconvenience of being left without any; but these spare supplies are performing work as truly as those which are actually in use. And what becomes of excess of supply beyond what is wanted for actual use and for a spare stock? The carts go under sheds till those employed are worn out; the unneeded gold and sovereigns go into the cellars of banks, to the tune of 70 millions of pounds in the Bank of France, and 15 millions in the Bank of England. Till more transactions come forward which are carried out with these tools, there is nothing left for them but to lie idle in store. The nation is the poorer for what has been paid in goods for this gold.

We are now able to judge the mercantile theory, which it was the glory of Adam Smith to have triumphantly refuted. We know what to think of the pleasure of merchants with which they learn that exports are ex-

ceeding imports and bringing a balance of gold into the country, gold that no one wants except he can get it as a gift. Nevertheless the mercantile theory lives on unblushingly, with a vitality absolutely indestructible; so difficult is it for shopkeepers and merchants to get rid of the feeling that trade is to sell for money, even though in London alone there is business transacted to the extent of one hundred millions of pounds a week, without a single piece of money being touched; it is all carried on by small pieces of paper called cheques. When the shopkeepers cry out that trade is very bad, and that there is no money, they only show their ignorance. The fact that what their customers really buy with is not sovereigns and shillings or bank-notes either, but the means of procuring these coins and notes is unperceived. The power of buying resides in the incomes of purchasers, and those incomes consist of goods, of corn and iron and other wealth. Trade may be very brisk or very slack with identically the same quantity of gold and silver and bank-notes existing in the country. But in bad times, the shopkeepers do not find these coins and notes making their way into their shops, so they exclaim that there is no money. In America and other nations that love inconvertible notes, a loud call arises for the issue of more money, more notes. As well might the owners of mines, who cannot sell their coal or iron, cry out that there are no buyers for lack of carts.

The same mode of thought has given rise to expressions of constant recurrence in speaking and writing which are greatly to be regretted. Great discussions are at this moment going forward on the excess of im-

ports over exports in the trade of England. England receives more goods than she sells to foreign countries; the difference of value, it is assumed, is paid for in gold; and then the universal language affirms that the balance is against England. If this is so, must we then declare that every purchase creates a balance against the buyer? The man who procures bread from a baker must pay the bill; has he been acting against himself? Is it not as clear as the sun at noonday that every purchaser prefers what he buys to the money he gives for it? Still more—and the question is most pertinent—what conceivable service does money do for anyone but to leave him in order to pay a balance in exchange for a service or for goods? When England has an excess of imports, it is undeniable that she has obtained that for which money was procured; so far the balance is in her favour, because she has got the things which alone can give any value to her money. This way of speaking has the mercantile theory itself for its essence.

Doubtless, on an excess of trade imports, England must have sent away, or owes, money. But to buy on credit, to obtain meat to be paid for at Christmas, is not to do an act against one's self, or to be in the position of having a balance against one. The balance is in his favour till he pays, for he has acquired wealth and given nothing for it. When he pays, he only restores equilibrium; there is neither for nor against in the completed exchange. When imports exceed exports—not by receiving payments of interest and dividends due by foreign countries, but in regular trade,—the real question to be asked, if we wish to learn whether England as a balance really against her, is, can she afford to pay

for the wealth which she has obtained, whether on payment with gold or on credit? If she can, there is no against in the matter, except as a misleading expression to indicate that she has not yet paid for what she has got. If she cannot afford to pay, then the word against starts up into real life, for she has consumed and she has enjoyed what belonged to others and has taken up the position of an insolvent debtor.

We may be asked in reply, Does not this view land us in the absurd inference that a country which has nothing else wherewith to make purchases of England but the produce of its gold mines has no economical value for, can confer no commercial advantage on, England? The answer to this retort is easy: such gold comes in as merchandise, and does not come in as money. It is money as coin which is useless, when there is enough of it in a country for the work it has to do; but gold, as a metal, may be applied to many useful purposes, and, further, may enable England to carry on additional trade with a third country. It may largely extend her commerce, if Australian miners bought her manufactures with bullion, and she in her turn purchased French or American commodities with that bullion. It practically becomes international money, except that a very large portion of it is ultimately arrested and made use of in many arts. Much of the Californian and Australian supplies of gold, it cannot be doubted, has been absorbed in this manner; otherwise, if it had been devoted exclusively to the manufacture of coin, an enormous depreciation of its value must have ensued.

What may be the consequences of a large influx of gold suddenly poured into a country, let Germany

teach us. I hope I may again venture on the liberty of quoting from the "Contemporary Review":*—

"Germany became engaged in a gigantic war with France. In these modern days the cost of armies and of their armaments is enormous, far exceeding that of preceding ages. Immense numbers of troops took to the field, and their maintenance alone created a vast consumption of wealth, without any return for it in the shape of fresh wealth. Men were taken away from their labour in the fields and factories in huge hosts, paralyzing domestic industry and devouring the existing stock of the national wealth. No more rapidly impoverishing process can be conceived than such a war. That commercial distress should follow such destruction can create no surprise. Suffering and impoverishment are the natural offspring of war. But did not the indemnity make all right for Germany? Two hundred and twenty millions of English pounds might seem enough to lift any people to the summit of prosperity. But it is not sums of money which enrich and bestow welfare and happiness, but what is done with them. A large portion of this money was applied to the making of fortifications and to other military works. No improvement of their condition, no relief to their distress was got out of that by the nation. On the contrary, such an application of the French gold made matters distinctly worse for Germany. German labour, and German food and clothing were taken away from that production of wealth which would have brought better times, and were applied to the filling up of military stores in a very unproductive way.

* April 1877.

"But gold is riches—and riches supply every kind of necessaries and of comforts. Gold, we answer, is not riches till it is made use of by being parted with; that is all the good which can be obtained from it, unless it is applied in the arts to gold ornaments. Gold exchanges commodities—enables a manufacturer to procure coals in return for his cloth. But the gold itself and by itself confers no other benefit whatever than its services as tool. Germany would have been most truly and permanently the richer for the French gold had she given it away to foreign countries in the purchase of their wealth; it would have brought into the country what her people wanted. But Germany could get no gain by obtaining gold solely to move German things about.

"Then it is believed that a considerable portion of this French gold has been hoarded as a reserve against future war. That gold does nothing to clear the commercial depression. It sets no mills to work, gives employment to no labourers, imports no supplies of corn, meat, coffee, and clothing for the people, or raw materials for their industry; it is idle, and absolutely no better than if it were non-existent.

"But there is another portion of this French gold, of which there is yet worse to tell. Its action is full of instruction, especially for the city, if the city were only willing to gather it up. The German Governments were embarrassed with the excess of this metallic stock, and lent much of it to traders and speculators. To what better purpose could they have applied it? it will be asked. To none, but upon one condition—that it should be sent out of Germany. Its export would have

placed in Germany useful things in the place of useless tools for exchanging of which there were already enough. But by being retained in Germany and lent to borrowers it not only was unproductive of all good, but it really engendered mischief peculiarly its own. The borrowers took to buying German goods; prices rose in the shops and warehouses all over the country; profits were realised, and wages gained advances; and then the evil consequences soon appeared upon the scene. An increase of spending broke out all round; there was money in hand; it was applied to buying things pleasant and enjoyable A higher style of living was adopted: in other words, a larger and more rapid consumption of wealth prevailed. And what was obtained in exchange? The gold, which did not restore the wealth consumed, but only transferred existing things from one set of hands to another. Did not the German humourist stand on the ground of solid sense when he exclaimed, 'Let us have another war, and let the Germans have to pay the indemnity?' Had he not the acuteness to perceive that if much harm is to be averted, the sooner an excess of gold is sent out of the country the better? Let those who bewail exports of gold, and record its imports with delight, ponder over his words and the facts that elicited them."

The worth of a gold coin, its power to buy, we have seen, consists in the value of the metal of which it is made. This is proved, independently of general considerations, by two facts. Sovereigns are constantly melted abroad and converted back into bullion. This would not be done if the coin was not worth the metal. It would be sent back to its home where the additional

value would be realised in the payment of commodities purchased there. Secondly, international balances of trade are regularly paid by bullion. That bullion is valued according to its weight, its standard of fineness being of the required quality. It reckons for as many sovereigns as its weight would furnish, whilst the value, consequently, of that weight of sovereigns is the price or market value of the commodity for which it is exchanged. But the value of the metal may fluctuate. Like other metals, it is subject to the law of demand and supply. If the mines yield a larger quantity of gold for the same amount of labour, the supply is increased, and the metal becomes cheaper. More of it must be given for other commodities which have not changed; general prices rise. Or again, if the demand for it were diminished, if a large quantity of it was thrown on the market, the same result would follow; it would suffer depreciation, the supply being in excess. Such has been the fate which has overtaken silver by its demonetiation in Germany and the augmented productiveness of the mines. The point to observe is that this loss of value is in no way occasioned by fluctuations in the circulation. Prices are not governed by the greater or smaller quantity of sovereigns circulating, but by the changes which occur in the value of the precious metal. If the circulation is superabundant, the excess returns into store; in France, to the tune of some seventy millions of pounds. But, stored-up coins do not tell on the prices of the shops; French goods are not made dearer, in gold coin, by them. But if the supply over the whole world is made larger by the causes named above, then gold stands at a lower

value; and in every country it counts for less in being exchanged for commodities.

But this principle has been pushed too far by many economists of an older school, and by some even of the present day. The changes in the value of the circulating coin of a people were extended to what occurred within its own territory. It was laid down, and is still, as a fundamental principle, that the quantity of money in a country regulates the aggregate prices of all commodities. This is perfectly true of all the world. If the whole stock of the precious metals varies largely, either in the way of excess or deficiency of supply relatively to the wants of all mankind, then these variations of the market tell on the worth of the precious metals, and alter prices proportionately. But when this truth was supposed to hold equally good of a single nation, such as England, and when it became a favourite idea to regulate speculation, to control the rate of discount, to guard against crises, or to raise trade from depression by adding to or diminishing the money of a country,—by acting on the exchanges, as it was called,—the relative position in which nations stand towards each other in modern commerce was forgotten, and the prescribed rule thus became nothing but a fallacy.

The civilised nations of the world are not single and isolated markets. Their intercourse with one another is easy, rapid, and most extensive. Under such circumstances it is quite impossible that such a commodity as gold should have different values in different countries. Gold has small bulk and weight compared with its worth. It can be easily made to travel, and a very small difference of relative value would speedily send it on its

journey to the locality where its purchasing power was greatest. A Frenchman or Hollander who discovered that a deficient supply of gold had made gold dearer and lowered general prices in England would instantly order purchases of these cheapened articles and would pay for them with gold. Or if the opposite effect had been produced, if a superabundance of gold in England had raised the prices of commodites within her border, he would reverse his operation and send over goods to be sold at these higher rates, bringing away gold in exchange, and reaping a profit by the transaction. These forces keep the value of gold at the same level amongst great trading communities. There is not a particle of proof of any variation in value. The Bank of France accumulated some seventy millions of pounds of the precious metal; did anyone ever hear that prices had gone up in consequence in the shops and warehouses of France? So again, in England, there is a much larger quantity circulating in summer than in winter; has anyone spoken of a change of prices, or of buyers waiting till winter to make their purchases when the reduced circulation, upon this theory, lowers prices throughout the land? This mistaken idea was one of the dreams which led the authors of the Bank Charter Act to imagine that they were controlling the money market of England and acting on the movements of trade by the management of bank-note issues.

An important distinction must be drawn in reference to the amount of the circulation. The same aggregate amount of cash transactions will not always require the same quantity of money. The same coin may effect few or many transactions according to the circum-

stances of the locality. In a gambling-house the same sovereign may settle twenty affairs in a quarter of an hour. In a great colony it may remain weeks or months in a farmer's pocket before it can be used. In a nation in which life moves slowly, or buyers and sellers live wide asunder, or where no credit is given, a much larger number of coins will be required to settle transactions which could be accomplished by much fewer but more rapidly moving coins under opposite circumstances. Hence rapidity of circulation will diminish the quantity of money required. The rule, however, remains ever the same. Enough money to carry out the cash business, be it much or little, must be provided, and no more; for more cannot be used—(omitting here spare stocks and change of metallic value)—all merchants, shopkeepers, inflationists, bankers, stock exchanges, and newspapers notwithstanding. We thus make a deduction of much economical value, that the question of the distribution of the precious metals is at bottom only a question of the commercial habits of different localities. A nation is not the poorer for having little gold coin, nor the richer for having much, if only it has enough. The precious metals flow to countries of low civilization, of political insecurity, where the law is weak and justice uncertain, also to nations using large banking reserves, of which more hereafter. But they find scant resting places in lands of high commercial development, where property is safe and the recovery of debts easy and to be relied upon, and where the owners of goods are willing to part with them for cheques and bills and similar processes of deferred payment. There is probably no country in the world which in comparison with the

extent of its wealth and its trade uses so little money, metallic money, as England.

The quantity of gold money, whether as coin or ingots, existing in a country must be viewed under two aspects; first, as circulation doing the work of buying and selling all over the land; secondly, as reserves stored up in banks. A reserve is a special element of a particular business; its discussion must be postponed till we reach the subject of banking. But as regards the circulating wants of a nation the export and import of gold have no significance. If gold coin became scarce, there would be no difficulty in quickly filling up the deficiency from the Continent. But gold moves too freely from place to place to make it scarce in such a trading country as England, except possibly in banking. This, however, is the affair of persons who have incurred debts and have pledged themselves to pay them in gold on demand; and no bank ever stopped payment because there was a deficient stock of gold in all England, however little there might be in its own till.

Adam Smith truly pointed out that there never was any difficulty in England replenishing itself with gold from abroad, if only there was the wherewithal to pay for it. In former days such importance was attached to the maintaining the stock of that metal which was pre-eminently held to be wealth, so anxious were traders and governments for keeping up the supply, that strict laws were enacted forbidding the exportation of gold. But an article, so small in size and so great in value, could not be stopped from wandering as it chose by the decrees of Parliament. Smuggling was more than a match for the law and the Custom-house,

and at last the idle statutes were repealed. The supply of gold now stands on the same basis as that of every other article. It comes and goes at its will, according as the balance of trade for the day requires it to be sent abroad to pay for foreign goods, or to be received in England in payment for exported English merchandise.

Except with reference to banking, no one gives the stock of gold a thought. There are, indeed, occasions when a large export of gold is called for in the liquidation of international trade,—as when a bad harvest or famine creates sudden and urgent purchases of food abroad. The foreign countries of whom the food is purchased do not buy English goods in return with equal rapidity, and the balance to be sent out at once may be large and difficult at the moment to procure. But the machinery of modern commerce here comes in aid. Bills—which are only deferred payments—are brought into play, and the balance is frequently corrected, before it is due, by an export of English goods. Trade is perfectly competent of itself, without artificial help, to deal with the supply of every article, gold included.

Countries which have relations of buying and selling with another require their respective currencies to be compared with each other, so as to discover what a sum expressed in the language of one country has for its equivalent when transferred into the language of the other. Each country sells, whether to its own people or to foreigners, at the local prices attached to the goods. At the end of each day, purchases have probably been made in both countries. Each purchase is not paid for by sending the money due across the border; the

clumsiness and cost of such remittances render them impracticable. The payment of the balance of debt alone, to whichever side it inclines, is remitted in money. But how is the exact figure of that balance to be discovered? Englishmen, for instance, owe francs to France for silks and wine; Frenchmen similarly owe pounds to England for iron and woollen manufactures; to ascertain the balance between the two nations, each pound due must be calculated as equal to so many francs, and the francs due in the same way must have their equivalent in pounds.

How then are the payments respectively due by France to England and by England to France to be calculated? The currencies must be reduced to a common measure; in this case to gold. French napoleons and francs must be converted into weights of gold; so must the English pounds and shillings. The weight of gold in an English sovereign is compared with the weight of the same metal in the French napoleon of twenty francs. The discovery is then made that the English sovereign contains rather less than 1¼ napoleon, that is, rather more than twenty-five francs would be equal to it, if the napoleon were melted and then sold for francs. The exact weight is what would be exchanged at a bullion dealer's for 25·215 francs. This is called the par of exchange between England and France, and when the exchange is at par a man who has a sovereign can obtain these francs, and *vice versa* with these francs he can get a sovereign. A bullion dealer who bought two equal heaps of sovereigns and napoleons on this basis, and melted them into ingots, would obtain exactly the same weight of gold from each heap.

But exchange seldom is at par between two countries, because the buying and selling is seldom equal on each side on the same day. The difference, as explained, is liquidated in gold. Now to send gold across the water involves a charge for carriage and insurance; this the man who must remit payment will avoid if he can. Goods purchased in foreign countries are, for the most part, liquidated by bills,—the buyer undertaking to pay on a deferred day the sum due to the seller in his own currency. An English debtor, let us suppose, has bought wine in France and signed a bill payable, say at three months, for some thousands of francs,—how is he to place these francs in the hands of the French wine merchant? He seeks out a bill, which a French buyer of English iron has signed to pay in pounds and given to an English iron merchant. The buyer of the wine purchases with pounds in England those pounds which the iron merchant is to receive of the Frenchman. He then sends the bill to his French creditor, who obtains these pounds turned into francs from the purchaser of a bar of iron. Thus one Frenchman is paid by another Frenchman—the seller of wine by the buyer of iron in France; in England the English exporter of iron receives his payment in pounds from the English purchaser of wine. When the buying and selling in both countries are exactly equal, all goes on smoothly, there are bills in existence to pay the debts exactly; but when more has been bought in one country than in the other, a difficulty springs up.

France, we will suppose, has bought more iron than she has sold of wine; bills due by England to France are fewer than those due by France to England.

Some French debtors cannot find bills to purchase, they must remit gold, but that is expensive.. So they go to a Rothschild and ask him to pay their debts for them in England. For this service he will require a remuneration, and he will not sell an English pound to be paid in London for perhaps less than 25½ francs. The buyer will give that excess above par, 25·215, on one condition,—that it would cost him more to send a sovereign's weight of gold to England. If Rothschild demands 26 francs, he will not be employed to make the payment; the French debtor will insure and send over gold. Thus, the limit beyond which the excess over par in the exchange will not rise is the cost of the transmission of the metal.

An exchange established at 25½ francs is called favourable for England. An Englishman landing at Calais will obtain nearly one-half franc more than the worth of his sovereign in French gold. At 24½ he encounters an adverse exchange; he gives more gold than he gets back. So far and in distinct relation to exchanging sovereigns for napoleons, the terms favourable and adverse are correct. But this is not the sense in which bankers and merchants speak of favourable exchanges with delight. They attach a very different meaning to this much-loved phrase, a meaning than which nothing can be more false or misleading. It still survives the memorable refutation of its untruth by Adam Smith. It involves ignorance of the very nature of trade; it effaces the living fact, that men buy of foreign countries to procure goods for use and consumption, that all trade is only an exchange of goods. This language is profoundly

unconscious that gold is a mere tool. It teaches that gold, that is money, is an end, a good thing for its own sake. We can buy with it, reply the merchants. So you can, and you can also buy with the goods you might have imported for English enjoyment and consumption; but your buying only moves about the wealth already existing in England, it makes no addition to it whatever.

Favourable exchanges, as understood by the city, is an expression saturated with the mercantile theory. These words express satisfaction at the proof that England has bought more than she has sold, spreading the delusion mentioned in a preceding page, that an excess of exports over imports is an excellent state of trade, that it is a good thing to spend labour and wealth in making iron and yarns and to get gold in the place of them,—for what object they do not say. They perpetuate the absurdity of the merchant and the shopkeeper, that there is nothing like selling; unconscious that to sell goods without buying others is to convert a man into a Midas, and so make him perish amidst heaps of gold. The value set on favourable exchanges is one of the great intellectual blunders of our age.

We must now speak of secondary or subsidiary coins. So far, we have had before us only one kind of coin existing in a country, its tool of exchange, and its measure of value. This coin is called at one time the standard of money, at another the legal tender. Legal tender is easily explained. It denotes a payment which the law declares to be a complete satisfaction of a creditor's claim, which if offered, he must accept, and which if he rejects, the law will give him no further protection, his debt will be gone at law. The words

always imply a debt already existing, a contract made to pay money; the legal tender is the law's interpretation of the word money. The expression, standard, is ambiguous, and not always easy to define. In countries, such as the United States, which have inconvertible bank notes for their currency and pronounce them legal tender, it is hard to say what is their standard. A note is only a promise, a set of words, an acknowledgment of debt, but not a payment of it; to call such a note the standard of currency conveys no clear and exact meaning. In countries which use coins, the word standard denotes the metal of which the chief coin—that which passes or is referred to in all great transactions of business,—is composed. It is not the law which determines the standard but usage. The law interprets the word pound if it is set down to a man's account in buying; but the seller might have stipulated that he shall be paid in rupees or dollars, and the law would have enforced such a contract. In America, an immense amount of business is carried on under the stipulation that payments shall be made in gold.

In England gold is the standard—but silver and copper are also used as coins. The sovereign is always a legal tender; so are shillings up to the extent of two pounds. So also are pence, up, I believe, to a shilling. What now is the precise nature of these coins? Do they come under that description of money which has been already given? They fail in the capital point that they do not, as tools of exchange, do their work by giving an equal value of silver or copper, as metals, for the things which they buy. They give a part of the value only, not all. Then upon what principle are

they accepted by sellers? Has this partial value any effect on the prices charged by sellers of goods, leading to more shillings or pence being asked for the articles, up to the point, when the quantity of silver or copper equals exactly the value of the goods sold? No such effect is produced—the shillings purchase just as much, as if they had contained the necessary amount of silver. Hence it is evident that shillings are counters or tickets wielding a purchasing power equal to the twentieth part of a sovereign. They obtain this power from the fact that twenty shillings are freely taken in change for a sovereign; and thus every seller knows that with twenty of them he can get a sovereign, and he fixes his prices in shillings upon this basis.

Still there remains the question to be asked—Why is it that a sovereign is thus readily given for twenty shillings when the gold in the one is of more value than the silver in the others? Because, practically and really, they pass as tickets for sovereigns. But this freedom of circulation is grounded on the fact that the shillings cannot be multiplied at pleasure—for then their value would immediately be depressed. The security against such multiplication lies in the quantity of silver they contain. There is not silver enough for the shilling to be truly worth the twentieth part of a sovereign: but there is too much to leave a profit to a man who manufactured a good shilling to put it into circulation. Were the silver less in quantity it cannot be doubted but that multitudes of new good shillings would be issued from other manufactories than the mint, and then no one would give a sovereign for twenty shillings. The same danger, however, at this hour

hangs over shillings from another quarter. If the threatened depreciation of silver were to take place, then the effect on the shilling would be the same as if, at its present value, a portion of its silver were taken away. The temptation to manufacture, not adulterated, but excellent shillings of full weight, and to change them for sovereigns would be found irresistible; shillings would pour in upon the circulation in crowds, and the sovereigns would be bought off with them and melted down into gold. The world would have no other possible remedy than to coin shillings with more silver in them, or to assign more shillings to the pound.

The violent oscillations in the value of silver have created an alarm and agitation in all persons connected with India, which, at one time, were intense. There was only too much reason for fearing calamitous consequences. The state of the silver market, more especially in relation to India, was investigated by a committee of the House of Commons with very great care and minuteness, and as far as existing facts are concerned that committee put forth a very valuable and instructive report. Between January and July 1876, the value of silver fell from 56d to 48d an ounce. The production of silver had risen from £9,000,000 in 1862 to £15,000,000 in 1875. The discovery of new mines of marvellous richness was announced in Nevada. Then, on the other side, the German Government had substituted a gold for a silver currency; and an enormous quantity of silver had become useless for the purpose to which it had been applied, and was likely to be thrown on the general market of the world for sale. £6,000,000 worth had

already been sold, and there remained a sum still to be disposed of, variously computed from £10,000,000 to £30,000,000. Sweden had followed the same course in demonetising silver, and metal to the amount of £2,000,000 had been added to an already excessively over-supplied market. The Latin Monetary Union followed step, but more feebly.

In addition to these gigantic quantities thus rendered useless, these countries ceased to buy silver for their monetary wants as they had largely done previously. India too marched on the same lines. The demand for silver which for several years, ending in 1875, had been above £15,000,000 a year fell off to a quarter of the quantity annually produced, £15,000,000. The Committee of the House of Commons reported that the chief cause of this great decline in the export of silver to India was to be found in the fact that "a different form of remittance, namely, Government Bills, had superseded of a great extent the necessity of remitting bullion." Merchants who buy Indian goods instead of sending silver over the sea to India now buy in England bills which the English Government had drawn on India for payments due by India. The Government receives in London the money due to India for the products which she had exported to England, but India receives no silver to the extent of these bills. She merely orders that the silver which would have been sent to her for the payment of her exports shall remain in Europe, and that the debt due to her for her exports shall be appropriated to the payment of what she owes to the Home Government for its disbursement on her account. In other words, she pays with her own produce as every other nation. These dis-

bursements thus repaid to the Home Government "had arisen since the Indian mutinies from £5,000,000 to £15,000,000; a difference of which the magnitude will be appreciated when it is remembered that it is considerably more than half the total amount of silver annually produced." Thus the vast sum of £10,000,000 of silver which formerly was sent annually to India remains as an excess of supply to burden the overstocked silver market of the world. India herself largely contributed to that fall in the value of silver which threatened to involve her in great distress.

These powerful causes, then, continuing together, generated a depreciation in the market-value of silver, as we have seen, from 56d. to 48d., a fall of nearly 15 per cent.; what would have been the effect on India had such a low value of silver been permanently established? The standard of her currency is silver. Silver coins are her tools of exchange; the things bought and sold in that great country are calculated in silver. In exchange for silver coins of diminished value, the prices of everything sold, whether goods or services, must have risen. A sudden and serious drop in the value of the money of a nation is always accompanied by severe suffering to innumerable persons. Every creditor is injured; the worth of the debt due to him is diminished. He is paid with the quantity of money due; but he encounters raised prices in every shop. With the same coin in hand his income is lower; for he gets fewer things for his money. For the middle and higher classes of a country, supposing the lower value of the coin to become stable, and fluctuation to cease, the evil adjusts itself with comparative rapidity. The suffering is inflicted and

endured. Creditors are poorer men, debtors have made a proportional gain, and then a new start, so to speak, is made with the altered incomes.

But the case is very different with the poorer classes, and in India their numbers are enormous. Custom wields great power over the wages they receive. The makers and sellers of commodities quickly adapt their prices to the worth of the coin for which they sell them; but it generally takes a long time before the wages for which labourers sell their services are made to correspond to the lowered value of money. Nominal wages in money move slowly under the mere influence of an altered currency; real wages, the power of buying food and clothing, sink long before the fitting correction is applied. So long as this state of things lasts, the labourers, as a class, receive lower remuneration from the rest of the community; they suffer an unintended indeed, but very real, hardship. In India the distress over so immense a body might be most formidable on many sides.

Then, again, many a large body of civil servants, military men, merchants, and others, who have returned home, receive great sums every year, which are due to them in silver in India, and are remitted to them in bills payable in gold in London. With an important depreciation of silver, the quantity of gold into which remittances would be converted would be seriously reduced. The suffering would often be severely felt, and in such a body much agitation would most certainly spring up.

Further, the Indian Government has to pay every year in England very heavy sums due for interest on

Indian stocks payable in gold, and for other charges. It would have to purchase that gold for remittance with an increased quantity of silver rupees. Its natural resource would be the same as that of traders, who raise the nominal prices of their goods to meet a depreciation of the worth of the coin. It would be obliged to increase the nominal taxation of the country by demanding more rupees, whilst in reality it only levied the same amount of real value, the same quantity of property given to purchase the sum due for taxes. But there are always embarrassing difficulties for a government in adopting such a measure, most of all in a great dependency inhabited by an alien population. The multitude would certainly regard the additional rupees as a pure increase of taxation. The currency reason, that silver being depreciated, no greater charge was imposed upon them, because they were obtaining better prices for what they sold, would not be understood, or if understood, would be looked upon as a mere pretence. Then, as before remarked, the poorer classes would not yet have secured the rise of nominal wages which was their due. Such a position would be extremely delicate for foreign rulers. But there is more yet. A large part of the territory of India is subject to what is called the Permanent Settlement: the government has covenanted to let that land for ever at a fixed rent, calculated in rupees. The amount of rent thus permanently settled is estimated at some £5,000,000 a-year. This is a sum which the Government cannot alter; be the rupees worth more or less, the government gets the stipulated number and no more. On the other hand, under a depreciated currency, the Government would necessarily be compelled to raise

the salaries of all its servants, and the pay of the army, and in addition would be charged more rupees for all the supplies which it purchased. To the extent of this permanent rent, the government would lose all the addition it was forced to make to its payments; its income would be stationary, its out-goings greatly enlarged. The position of the Government would be grave indeed.

Is it possible to discover any remedies or alleviations for such a situation? Two have been advocated with great force.

1. A limitation in the coinage of silver rupees in India, accompanied by a prohibition to import rupees into that country.

2. The substitution of a gold for a silver standard, by making gold the legal tender.

3. A third might be added, which has not received the attention which it seems to deserve,—the issue of bank-notes of small denominations.

One or two suppositions must be made in examining these propositions. Either a considerable fall in silver to a value more or less steady may have been permanently established. Or the oscillation in the value of silver may still be violent and of wide range. This last consideration has an important bearing on the adoption of a gold standard.

The first plan proposes to rescue India from the embarrassments and sufferings above described by giving to the currency of that country, the silver rupee, a special and artificial value wholly distinct from the value of the metal it contains. The legal tender, the coined rupee, shall be made so scarce that it shall

command a premium, so that ten rupees shall be exchangeable for a sovereign, whilst twelve times the rupee weight of uncoined metal would be required. Supposing such a measure to be practicable, some serious difficulties would vanish. The Government would receive the coined rupees from the rent under the permanent settlement, and they would command the same purchasing now as ever. They would be taken by sellers of goods as worth ten rupees to the pound sterling. Similarly every creditor in India would receive the same tale of coined rupees, and he would lose nothing in buying Indian goods.

But is such a scheme practicable? In the first place, how is the actual premium at which the coined rupee stands to be learnt under such circumstances? The rupee's value no longer bears any reference to the value of the metal of which it is made. No one out of India will give a sovereign for the ten rupees; and if the sovereign is taken to India by a merchant, how is he to find out whether he can obtain goods with the ten rupees worth his sovereign? The exchange will not remain stationary at ten rupees to the pound.

But, secondly, the direct result of such a proceeding would be that there would be two prices of silver in the same market—one for silver ingots, another for the same quantity of silver when coined. It would be a strange thing, indeed, if the giving in the shops two different quantities of produce for the same weight of silver were capable of being worked. It has been acutely remarked that this would be a reproduction of the contrivance of the mediæval kings, a false coin to reckon for as much as an honest one. A profit of two rupees on twelve

would be an irresistible temptation to coin-makers other than the Mint, for which all the policemen of India would be no match. Rupees of the finest quality, which the Mint could not surpass, would be coined in and out of India. Interdiction at the Custom-House would be as efficacious as the ancient prohibitions to export the precious metals. The case has been excellently stated by Mr H. Hucks Gibbs. It has been asked, "How is it that this coinage does not take place in France? The answer is—What evidence is there that it does not? And India is not France, but has a very different frontier. Further, we have an example in the Brazils, where the coinage was below its nominal value; the illicit coin grew in the country, and poured in from abroad in myriads." No law can perform the impossible; and to maintain two widely different prices for a metal in money and the same metal in ingots is impossible. A shilling we have shown to be but a counter, a ticket for the twentieth part of a sovereign, realisable as such at any time. But for the danger of adulteration or forgery, the shilling might be made of copper, lead, or paper. The shilling is not valued as silver; hence the English currency does not exhibit two prices for silver in the same market.

Another remedy has naturally occurred to many minds. It proposes to substitute in India a gold for a silver currency, and to make gold the standard of value, and the legal tender for all debts. A subsidiary currency of small denominations would have to be added on of necessity for the small purchases of the country. This in substance would be to give to India the same currency as England possesses. In principle,

it is perfectly sound. It obeys the necessary laws involved in the nature of money; and when once established it would work with ease and with universal satisfaction to all classes. But the change would be one of great difficulty, and would create, during the state of transition, some additional losses and sufferings of its own making. The demonetisation of silver—unless some plan could be devised which would retain the present silver rupee as small coin—would throw an immense quantity of silver on the markets of the world, and lead to a further considerable depreciation, as happened when Germany gave up its silver currency. During the process every trouble would be aggravated.

Further, to supply India with the required stock of gold would be far from easy, and certainly would be an operation requiring much time. And thirdly, it can scarcely be doubted that the measure would, by increasing the demand for gold, be likely to lead to a serious increase of the value of that metal. Such an appreciation of gold would create an immense disturbance in every country of the world in which gold was the standard of value. The prices of all articles would sink, and, which is far worse, a false, unjust, and irritating payment of all debts would be established. The national debts in every land, which paid the interest in gold, would be heavily increased in practical severity. Every tax-payer would have to pay the sum which he owes to the national creditor with more property. This would be practically a proportionate increase of taxation, simply because gold had become more valuable. The opposite consequences would result in England from those which the depreciation of silver had generated in India. Every

debtor would be injured, every creditor would become the winner, by mere chance, of an unexpected and undesired gain, at the expense of another man. Such wrongs are the inevitable accompaniments of any important change in a national currency. They are contained in the very nature of currency, in the very method by which the tool of exchange performs its work. It works by value, the value of the commodity of which it is composed; it gives value for value. A debt was contracted on the understanding that the money to be paid would replace the worth of the things sold. If the coin is worth less, the payment of the same quantity of it as was stipulated overthrows the justice of the payment. A wrong, more or less severe, is committed.

It is impossible, therefore, to consider a change in the standard of value to be desirable, unless it is forced on by overwhelming reason. But it must be clearly admitted that such reasons may exist. The German Government held that the substitution of a gold for a silver currency was called for by such motives, and carried out the measure. The movements in the value of silver produced such grievous effects on India, that it was very natural that a similar substitute should come under serious discussion. The recoil upwards in the value of silver to 54d. and more has adjourned, if it has not extinguished, the intention of adopting such a measure. But the future of silver is uncertain. No one can feel sure what the amount of its future production will be, what new mines may be discovered, how great will be the amount of their yield, and above all, its cost. Further, this very recoil upwards suggests the possibility that

other great and sudden fluctuations in its value may occur. Should there be such movements, of wide range and great frequency, then I cannot feel any doubt whatever that a change to a gold currency will become necessary and inevitable. A tool false to its nature and the specific work it has to perform cannot be permanently retained in any department of human life. A currency of largely shifting value would render credit impossible, except for very brief terms. No Government or other loans could be contracted on such a basis; clauses virtually substituting a gold or other currency would always be inserted. Bequests, pensions, permanent gifts and settlements would all be expressed in gold. The practice, now so common in America, of selling for a gold price would become general. Society would thus be harassed by numberless injurious and mischievous vexations; the remedy, though a very painful one, would certainly be enforced. No civilised nation could endure to go on with a currency, measuring all property and the instrument for the acquisition of all necessaries and enjoyments, whose worth no man could pronounce upon, much less predict, with any certainty. It is not beyond the limit of possibility that the fluctuations in the value of silver might exceed in swiftness and magnitude any known to even inconvertible bank-notes.

It is a matter for some surprise that in the frequent discussions of a gold standard for India so little allusion has been made to the assistance which might be derived from the issue of bank-notes of very low denominations. Mr Wilson, when Financial Member of Council for India, advocated a ten shilling note. The Austrian

Government long employed notes of a value below threepence. The Minister of Finance of that day has been heard to declare that no really serious objection, founded on experience, could be urged against their use except the danger of forgery. Better protection on that side might be hoped for from modern science. A two shilling note works well in Austria at the present time, as also a one franc note in Italy. A rupee note, if successfully put into circulation, would immensely facilitate the introduction of a gold currency; but routine is slow to regard with favour such a diminutive instrument. It finds an enemy in every banker. He instinctively recoils from the trouble of counting and registering such small and, generally, such dirty paper. But that the small notes should be available at banks is not the vital condition of their existence in India; it is amply sufficient if they supply the small wants of a vast agricultural population.

CHAPTER XIII.

PAPER CURRENCY.

WE have now reached the great auxiliary of metallic currency or coin, the bank-note.

In no civilised country can all the exchanges of property, all purchases in shops or warehouses, be carried on by the agency of coin alone. Other tools of exchange are needed. Property is bought and sold by instruments made of paper, by bills, cheques, and most of all by book credit, that is, items of debt entered in the books of traders. These are not actual payments, real exchanges of one commodity for another. They do not give value for value. They are mere promises to pay, pledges for payment, or rather evidence of debt, which the law will enforce against those who will not make the promise good. It is found that men are willing to give away their goods in return for such promises on paper. Experience establishes the fact, it is founded on experience alone. Some of these tools of exchange possess a certain amount of currency; they circulate to some small extent. Bills, by the help of endorsements, run from hand to hand; that is, like sovereigns, they are used for making a certain number of purchases or paying a certain number of debts in succession, before they are presented for final payment and extinction.

It is obvious that these instruments, in the aggregate,

supersede to an enormous extent the otherwise inevitable use of coin; and on the other, they confer an immense service on a nation. They create the transcendant economy, that the bits of paper they are written on cost the merest trifles only, whilst the coins they supersede must have been necessarily purchased from the miners at a heavy cost of English products and capital. In addition, they escape the loss, which is by no means inconsiderable, of the wear and tear of the metal which it suffers in daily circulation.

The paper note possesses some further advantages over coin. It is lighter to carry; the want of weight is a real superiority in endless cases. Then it is easier to keep in safety than coin. It is a dangerous thing to steal, for it cannot be melted down like a coin; and by the numbers printed upon it, it furnishes an important security against robbery. These advantages, combined with that of cheapness, explain how it comes to pass that in some countries, as in Scotland, the one pound paper note is preferred by sellers to the sovereign.

One distinguishing characteristic of these mere promises to pay is that the acceptance of them is voluntary – (unless made legal tender by positive law)—on the part of the seller or creditor. No man is obliged to take a cheque, or bill, or non-legal tender bank-note in discharge of a debt. But the bank-note—which in essence is only a variety of the cheque—occupies a partially distinctive position. It is a cheque which the banker draws upon himself, and promises to pay in coin on demand. But it is also invested with a sort of semi-public, or rather, anonymous character. The private cheque, as a rule, does not circulate; it effects a pur-

chase or discharges a debt, and is at once sent in for payment. The reason of this fact is plain. The value of a cheque depends on the solvency of a private person or a commercial firm, and the state of his account with his banker ; and for the mass of men this is too frail a protection against non-payment to allow of the cheque being long kept in circulation. It is otherwise with the bank-note. The bank is a kind of public institution ; its note, bestowing the advantages just mentioned, establishes itself as a public currency. It circulates in town and market. The acceptance of it is scarcely voluntary ; for a tradesman who should refuse to take the notes current in his locality would expose himself not only to ill-will and diminution of custom, but often to positive inability to sell his goods.

It is obvious that the worth of a bank-note consists in the certainty of payment, of the delivery of the thing promised when demanded. As the law compels no one to accept a private cheque, it is the business of the man who gives property in exchange for it to consider for himself the prospect of payment. It is his affair—and he knows it—to weigh the value of the signature, and the chances of there being money in the signer's account at his bank. But the public cannot easily act thus with a bank-note. They take it more or less on semi-compulsion ; and the most disastrous and most extensive losses have been inflicted on the public, notably in the year 1825, by the insolvency of bankers and their inability to give the pledged payment in coin. The need of some legal provision to protect society and to give it worth to its paper currency becomes immediately obvious.

Are bank-notes money? The facility and characteristics of its circulation seem to establish its claim to that title. It is certainly universally called money. Coin and notes seem to differ only as a chisel differs from a saw in a carpenter's basket; they look like two varieties of cutlery, or rather, current tools. Nevertheless the bank-note, in its real nature, is not money, and it is unfortunate on many accounts that it is impossible to prevent it from being called money. Let any one read what is written on the face of the note. It promises to pay five pounds, five sovereigns, on demand. It undertakes to procure for its holder this amount of real money; but he must ask for the money in order to obtain it. A promise to give is not, and cannot be, the thing itself. Neither a bank-note, nor a cheque, nor a bill, nor a credit, nor a power of drawing is money, is payment; it does not put property into a man's hand, till the coin distinctly mentioned is given. The thing promised may never be paid at all; and the thing promised is money, coin, sovereigns—till that is forthcoming money has never made its appearance.

But if this is so—if a bank-note is only an acknowledgment of debt, and if a seller of goods gives them away merely upon taking a creditor's claim on the bank which is transferred to him—how comes it to pass that such an unreality can buy as well as the real substance, the precious metal of the coin? Because coin does not act or work by means of its physical properties, but by means of its value. That value is a complete guarantee to a seller or a creditor that he shall be able with it to procure other commodities worth those which he has sold. Experience shows that men are willing to take a debt as

payment, because it is found that what one man does every one else is willing to do also. A grocer gives tea for a claim on the Bank of England, because he finds that his butcher will do the same; and they all do it, because none wants the sovereigns pledged as such, but only the assurance that they can, on the instant, obtain the sovereigns if they choose to ask for them.

It plainly follows, from these facts, that the promise does its work as well as the coin promised on one condition, and one only—that there shall be a peremptory obligation on the issuer of the promise to pay it on demand. Without complete convertibility, the promise to pay is insecure, and immediately becomes exposed to a peculiar and formidable danger. The utmost harm of superfluous sovereigns is that they are compelled to lie idle; they are expelled like drones from the circulation, and sent to sleep, either in hoards or in banking cellars. But inconvertible notes, green-backed promises to pay for which no payment can be demanded, may be sent forth in unlimited numbers, and, which is the point of the matter, may be compelled to stay out in unlimited numbers. If a tradesman finds that twenty sovereigns will do the day's work of his shop, and that he has thirty, he will send off ten to his banker, who will forward them to the cellar in Threadneedle Street. No more sovereigns will remain out than there is work for. But if notes are issued as they now are by the American Government, and, the valve opening one way only, cannot be sent back again, they quickly expand into excessive numbers, far beyond what the exchanges of property to be effected require. Hence every holder is anxious to part with them, and finding no outlet, consents to give

them away at a loss. They submit to a discount, and there is no limit to that discount, if the inconvertible issues are continued.

Our next inquiry asks, How does this paper currency make its appearance in the world? By two processes. They are issued by a bank or by a government. A bank's object in issuing notes is to pay a portion of its debt with pieces of paper which cost little. If its depositors ask for payment, it presents to them this paper, and it is accepted: thus the bank meets its claims, and is able to keep its profitable loans to debtors undisturbed. But how comes it that the depositors are so graciously ready to accept payment in such a form? Because they find that the public will repeat the process, and be ready to take them in turn, in discharge of what is due by the depositors. But what makes the public so disposed to take a promise instead of the reality due? The reason given above, the transfer of a debt performs the work as successfully as coin, supposing always that the confidence in the bank remains unshaken.

Notes issued by a Government have a different origin. They are instruments for obtaining supplies for its wants without paying for them. But a government would encounter much difficulty in carrying out this operation on an extensive scale: the security it can offer for payment, strange to say, is far inferior to that furnished by a bank. A bank must pay its debts, the sum promised on its note, or become liable to all the pains of insolvency: its business is arrested, and its property seized by the decree of a court of law. In the case of a Government note, there is no one to go

to prison, or to have his property sequestrated, if it fails to meet its engagements. And this fact leads to a second. By the very nature of his business, a banker's great object is to retain the command of the means which he acquires with his notes. His one desire is to make a profit out of them, but not to lose or waste them. A Government lies under no such feeling. The notes are issued to pay for consumption—the commodities purchased with them are at once taken into use for destruction. Those who took Government notes would know that of a certainty there were no funds in existence that could be produced to cash notes presented. A Government bank-note, therefore, standing on its own merits, could not compete with notes issued by bankers. It would be swept off the market. Hence Governments have invented machinery for procuring circulation for their paper, They invest it with the character of legal tender. Legal tender does not mean, as many absurdly suppose, that a shopkeeper is obliged to sell for a legal tender note: but the legal tender law compels him to take the note on presentation for a debt recorded in his books. The word legal tender denotes that the law will regard it as a discharge of the debt. By the help of legal tender a Government can get its notes into circulation. It pays its liabilities with them, and suppliers of goods will enter into contracts on the basis of such a payment, because the contractor knows that he can pay his own debts with the paper which he receives from the Government. Thus the Government obtains what it seeks—supplies of what it wants without paying for them in ready money. It acknowledges a debt due for the amount which they cost, for the notes issued; but that

debt remains like Consols, a debt only, with the additional advantage of having to pay no interest upon it. But how fares it, then, with the public? Have they lost the stores thus bought by the Government with pieces of paper? are they harmed in any way? The answer to this question depends upon the character of these notes. If the Government makes their notes convertible, by giving money for as many notes as are presented for payment, then the nation suffers no loss. The notes remaining out in circulation have indeed been paid for with goods supplied, but they are currency wanted and at work; and they cost the public no more than what must have been otherwise given to miners for the gold currency whose place the notes have taken. But the case is entirely different if the notes are inconvertible, and are issued in excess beyond the wants of the public. That excess depreciates their value. The one-pound note may go down to fifteen shillings. Thus it becomes plain that the successive issues which lowered their value were made at the cost of the holders of the previous issues. They find that the notes in their hands now buy no more than fifteen shillings worth of goods: the Government has obtained the supplies purchased with these issues in excess at the expense of the holders of the previously issued notes.

These considerations establish the conclusion that the Government is a bad direct issuer of notes. It never could maintain a trustworthy machinery for convertibility, for paying in money, every note presented, and every nation would do well not to fall into the snare of setting up such machinery.

But it is open to a Government to issue notes in-

directly, through the agency of a bank; and the question has been often debated, whether a Government is reasonably entitled to engage in such an operation. It is condemned by many as an unjustifiable interference with private trade. Upon such a principle, why should not a Government become a manufacturer? In reply to this question, it may be contended with truth that a real distinction exists between currency and ordinary trade. The supply of the commodities which society requires is rightly left to private action; the work is accomplished with entire efficiency and success. It is otherwise with currency. The issuing of notes up to 1844 was open to any banker, and then experience disclosed serious evils. Banks paid their debts with promises, then lost the funds they acquired in exchange for the notes, and the unhappy note-holders were stripped of their property. Further, the currency affects the people as a whole; it is a public instrument, performing a public function. The people at large are under the necessity of accepting the currency actually in circulation; and when an issuing bank stops payment, the calamity ranges over a large portion of the community. The State is thus called upon to interfere, and the true intervention is that which will be discussed presently—the setting up of a machinery of a public character which protects every interest, and which yields a portion of its profits to the State under whose authority it acts.

Convertibility raises another question of extreme importance. Is it sufficient to impose the obligation on a bank which issues notes to pay its notes in coin on demand under pain of legal insolvency—or is it necessary to add the further protection that not only shall the

money be so due, but provision shall be made to insure that it shall actually be in hand to be given when demanded? In the case of bills, cheques, and common debts registered in shop accounts, no enactment requires that a security shall be lodged by the debtor for payment; the care to avoid loss is left to the judgment and feeling of the creditor. The law will compel the debt to be paid, if there is property belonging to the debtor which the law can seize for payment; but debtors are often penniless, and the unhappy creditor is left with an empty and useless right at law. Here, again, experience lifts her voice, and declares that the loss to the community is too general and too severe to allow perfect freedom of issue to banks on the sole condition of bankruptcy if the demanded coin is not given. Banks have failed in multitudes, and it is seen that the public cannot adequately protect itself in the matter of paper currency. Thus the great political principle comes into play, that in those matters in which the public is unable to protect itself the intervention of the State is not merely justifiable but called for. In the manufacture of gun barrels, in the moving and storing of gunpowder, in the management of passenger vessels and cabs, the minting of coin, the loading of ships, the law steps in with restrictions, sometimes with prohibitions, and no one contests the legitimacy of its action. This principle is summoned to exercise its supremacy in securing not only the legal, but the actual, positive convertibility of the public bank-note.

A guarantee for the perfect solvency of the paper circulation may be obtained by various methods; one has been adopted in the Bank Charter Act of 1844, a

second is found in the United States. The latter requires an issuing bank to deposit in an office of the State Government securities to the amount of its issues. By this provision, the public receives full protection, and the banker reaps his legitimate profit in the interest accruing on the stock which he deposits. Had the private bankers in 1844 been willing to accept this condition, and demanded thereupon full liberty of issue, the Bank Charter might very possibly never have been enacted.

And now there presents itself the question so critical for the understanding of all currency, whatever be its form: How many bank-notes will circulate? Mr Tooke discerned the true answer, and so also does Mr H. Hucks Gibbs, ex-governor of the Bank of England. Mr Mill, with some wavering, saw the light; but the general literature on money matters for a long time was profoundly ignorant of the truth. Few troubled themselves with the inquiry how many guineas or sovereigns could circulate. It had no interest for them to make them dwell upon it. Sovereigns, it was perceived, had to be bought and paid for with other property. Far otherwise was it with bank-notes; they were made of paper, and cost but a trifle. They could buy everything in every market. They commanded the wealth of the country, and they were issued and taken so easily; borrowers were so eager to obtain them from banks. Every tradesman, every merchant fondly believed that with plenty of money, there would be plenty of buying and profitable selling; so why should not money be manufactured at will? A theory for so pleasant and popular an operation could be manufactured with ease.

The result of these feelings was an outburst of circulation theories for the regulation of the currency. The mercantile theory had preached that the good trade was that which brought in gold, which gave away the products of England in exchange for the precious metal, which sent out an excess of exports over imports; but its absurdities stopped short of the claim to regulate the currency. But bankers, it was held, could put forth their paper notes or recall them at pleasure, they could inflate or contract the circulation, as the jargon of the day expressed it; and all sorts of ideas were propounded as the grand rules for managing these two great operations.

But a vast change has come over the literature of England in this matter. The words of the Economist of July 14th, 1877, we have seen, bear witness to this fact. In no small degree is it due to the enactment of the Bank Act of 1844. It is increasingly perceived that, by the very nature itself of currency, it is a tool, constructed to do a particular work. Hence so many convertible bank-notes will the public use, as it has a positive need for in paying with bank-notes, and no more. This is the universal law of all tools, the law of supply and demand. Neither bankers, nor Parliament, nor suspensions of the Bank Act, nor the need of borrowers, but the wants of the public, its willingness to keep notes in its possession, the number and amount of specific payments which it desires to effect with these tools, along with a certain spare stock, can determine how many convertible notes can be kept in circulation, and will not be returned upon the bankers for payment. The bankers, if they choose, may offer these on loan, and

borrowers will accept them readily; but it will be all in vain. The borrowers make purchases with them, the sellers of the goods do not want the notes for use; they come back upon the bank, which then finds that it has not acquired a single pound of lending power by means of these notes issued beyond the want of the public for notes.

THE BANK CHARTER ACT OF 1844.

It now becomes necessary to explain the Statute which is the foundation of the issue of bank-notes in England. Up to the time when this law was passed, any banker might issue notes to the public under the sole obligation of paying them in gold, when presented, under pain of committing an act of bankruptcy.

No measure, probably, has ever had so much good and evil said of it without any real understanding of its true character as this famous Statute. Committees of the Houses of Parliament have sat in judgment upon it, hosts of witnesses have recorded their opinions of its presumed effects, and yet what it does, and what it does not do, is, to this hour, a matter of never-ending controversy.

This fact is surprisingly strange, yet it has an easy explanation. The Bank Act of 1844 was the child of theory, whilst in fact its enactments are peculiarly practical, and scarcely tainted with any colour of theory. Angry combatants have fought over it in support of conflicting views; the last thing they have thought of has been to study its true nature by the help of what it enacts, instead of the doctrines which it was supposed to contain. And thus its real character has remained

obscured and buried under the weight of irrelevant controversy.

Let us then endeavour to explain the true character of this law. To this end let us see what the positive enactments of the Act are, such as they are in themselves, independently of all theory, whether of friends or opponents. When we have thus obtained a clear view of the Statute, we shall be in a position to judge some of the extravagant utterances which have been made as to its contents.

1. First of all, the Act separates the function of the issue of bank-notes from the banking business of the Bank of England. The notes issued bear the old name of Bank of England notes; in reality that Bank is made by the Act a purely private bank, unconnected with the issues. Its directors have no more authority or right to speak within the issue department, save only as clerks performing the mechanical work, than any other person in the kingdom. The Bank of England becomes only the largest private bank in England, with a special and very big customer, the Government, and also with a certain advantage from the issues, in consideration of the services rendered to the State by the Bank and the debt due to it by the nation. The issue department is a pure automaton, working mechanically under fixed rules; the Bank supplies it with rooms, clerks, paper, vaults, and other necessaries. It cannot give a single order to the automaton. All it can do is to get notes for gold, or gold for notes, in that department; any other Englishman can do the same. The name of issue department was ill-chosen, for it is very apt to mislead. It tends to

keep up the notion, destitute of all reality, that it is an integral part of the Bank of England.

2. It ordains that the private Bank of England may take 14 millions of Government securities to the issue department, and receive in exchange from it 14 millions of notes. Further, it orders that department to issue to the public notes in exchange for any quantity of gold bullion which may be lodged with it for the purchase of such notes, and to repay sovereigns on demand for any notes presented to it by the public.

By this enactment the Bank of England obtains as profit the interest accruing on the securities lodged in the issue department. As every note issued confers a right on its holder to be paid in gold on demand, it might happen, as for instance in the case of invasion, that the Bank of England might be called upon to sell its securities in order to obtain the gold pledged on its 14 millions. But that is an event which has never happened, and is never, as the nation and its need of currency expand, likely to happen. The probability is infinitely small that the circulation of bank notes will ever fall so low as to reach the notes uncovered by actual gold.

Further, it is plain what the bank-note is. It is a ticket for an article lying in a store, precisely like a ticket for luggage left in a cloak-room. The ticket can procure gold at once down to 14 millions, and below that figure an order on the Bank of England to sell securities and buy gold. And it is manifest also that the whole circulation is actually covered, and made sure of payment at once. The only deficiency possible would be that the Bank's securities, when

sold, did not quite cover the 14 millions; but the difference could only be a trifle, and all the Bank's property is pledged to make it good.

Then again, and this is a point of extreme importance for theoretical discussion, it is manifest that no restriction is placed on the issue of bank-notes by the Act of 1844—no limitation of their numbers. If the public chooses it may have 100,000,000 of these notes; only it must buy them with gold. It may be said, no doubt, that the expense of these notes, the gold required to obtain them, constitutes a very real limitation of their numbers. This may be so, but we shall see presently what the suspensions of the Act have to tell us on this point.

3. The Act limits the issues of notes by country banks down to the average of their circulation at a certain period after the passing of the statute. It also prohibits the creation of new country banks of issue; and it provides that if any of the country banks should, from whatever cause, cease to issue notes, the Bank of England shall issue notes, in addition to the 14,000,000, to the extent of two-thirds of the lapsed issues of such country bank. By virtue of this enactment, the line of issue uncovered by actual gold, stands at 15,000,000.

This provision is virtually a decree for the extinction of private issues. Country banks of issue, like everything human, come in course of time to an end; all sorts of motives lead to a bank discontinuing business. Not long ago the National Provincial Bank of England, whose business was carried on exclusively in the country, found that it lost more by not carrying on

banking in London than it gained by the profit reaped upon its issues of notes. It resolved consequently to abandon the issuing of notes, so as to acquire the legal right of banking in London. It possessed a large circulation; two-thirds of its amount consequently passed over as an addition to the 14,000,000 of the Bank of England.

Such are the facts presented by the law; what is their interpretation? What principles do they embody?

1. The first feature exhibited by the Act is the very marked characteristic, that it is purely and exclusively a currency law. Its first deed is to cut currency and banking clean asunder. It creates an establishment of currency, taking away from the Bank of England all control over the management of the paper currency, and erecting in its place a manufactory of currency and a shop for the sale of certain tools. There is not a trace of banking from the first to the last line of the statute. For all above the 15,000,000, the Issue Department is a pure receiving house, taking in gold and giving for it receipts, tickets, vouchers, for which it undertakes to give back the gold on demand. There is no banking in that. It does not make the gold much or little, the notes few or many. It simply takes the gold against receipts; what is done with the notes, it knows not, and can in no way whatever influence. With respect to the 15,000,000, it gives out the notes no longer as tickets or receipts for gold, but for securities, Government stocks. Here, it may be said, there is interference with banking. It compels the Bank to take away from its banking operations the funds with which it was obliged to

purchase the securities. Not so, the Bank gets notes in exchange which do precisely the same service for the Bank's banking that those funds would have done. But it might be replied, the law needed not to have required those securities; it might have authorised the Bank to issue the 15,000,000, as before the passing of the statute, on its own liability, whereby the Bank would have had that clear addition to its banking means. Had it done this, then the issue department would have been an institution connected with banking; it would have increased banking resources by 15,000,000 of pounds sterling. It is precisely because the law did not do this, but required securities or gold for its notes, that it created a pure receiving house or house of exchange utterly unconnected with banking. What the owners of the gold and securities do with the tickets is their affair, not that of the issue department.

Is it not then marvellous that the belief in its banking influence is so obstinate and so incurable? Is it not astonishing, that before committees of the House of Commons specially appointed to examine into the nature and effects of this Act, members and witnesses came to the investigation with an invincible belief, that somehow it had influence on the supplies of capital to the money market, that it had peculiar effects on trade, and that in some way it told on the rate of discount charged by the bankers of England. To this hour, it is the fond and firm belief of the City that to suspend the Act is to bring a magical force to bear on the putting down of crises. City articles every

week still quote the figures which record the amount of the circulation of bank-notes as furnishing a weather signal to bankers, totally ignorant of the truth so well expressed in the words of an eminent Ex-governor of the Bank of England :—"The Bank Act is the regulator of the currency, by which is meant—not that it prescribes what notes could be in the hands of the public—that the need of the public prescribes—but how they are to get into those hands, and of what sort they are to be of."

2. Secondly, a note perfectly sound and safe is provided for the nation. Convertibility is absolutely secured for every note—first, by gold actually in hand, after fifteen millions; secondly, by English Government securities saleable at once in the open market for cash. This paper currency is as good as gold; the guarantee which it gives to the man who takes it is thorough. This is a merit of the very highest order; it is, as to safety and solidity, a perfect paper currency.

3. But was the line at which the deposit of actual gold in exchange for notes drawn at the right place? But what is a right place? it may be asked; on what principle was it to be determined? The witnesses before the Committee of the House of Commons concurred in asserting that the limit of fourteen millions—the original figure—sprang from the observation of the circumstance that up to 1844 that sum was about the lowest point to which the circulation of bank-notes had descended. Hence it was argued that there was no likelihood of gold being asked for notes below that figure, and that a stock co-extensive with the largest amount of notes that had circulated would supply gold

for every pound that could be practically demanded. An empirical process truly. If such was the motive, it indicates but too truly how ignorant the men of that day were of the forces which regulated the numbers of the bank-notes; how little they perceived that the convenience of the public, or the quantity of other instruments of currency, determined the number of notes needed by the public. The establishment of a score of clearing houses throughout the land might easily have deranged the calculation, and lowered the line to seven instead of fourteen millions.

It has been explained above, that except to the extent of the fourteen millions required, once for all, to be covered by a deposit of Government securities, the banking market is unconcerned in the determination of the line. But it must be remembered that the gold lodged has to be purchased with English wealth sent abroad; the capital of the nation for production is diminished to that extent. The drawing of the line, therefore, does effect the productive power of English industry. If the Bank of England were allowed, as before 1844, to issue notes as a banker on its own private liability, then, supposing safety not to be endangered, the wealth of England would be larger, not only by the stock of goods retained in the country, but by the increase of that wealth which would be generated by their employment in production. Upon that basis, it could hardly be argued that fifteen millions was the place to draw the line at. On May 23, in the great crisis of 1866, the notes issued amounted to about twenty-six and a quarter millions. The bullion in the issue department stood at eleven and a quarter

millions, the Bank having fifteen millions of notes on securities deposited. Even in such days of agony and distrust, there were upwards of eleven millions of metal not needed by the public. Is it possible to affirm in the face of such a fact, that if the Bank had been allowed to have six of those millions of notes, on its own responsibility alone, that there would have been any real danger of a bank-note being presented for payment, and the answer given to it, No gold? Even if, in the very worst of times, the gold in hand sunk to one million, what could the country want more? The Bank of England never suffered the slightest depreciation, even when no provision was made by law for a supply of gold; a million to the good in the worst of weather would seem to show that convertibility had taken its passage in a good sea-boat.

4. The gold stored in the State office, called the issue department, in no sense whatever belongs to the Bank of England; yet it is an all-pervading notion in commercial circles that the gold is an increase of reserve for the Bank, and consequently is a security and accommodation for trade. This is a complete delusion. It might as well be supposed that the sovereigns scattered all over England were a part of the Bank's reserve. The notes given out for the gold lodged travel all over the land; some find themselves in Threadneedle Street in addition to the fifteen millions, but the bulk of them are hard at work in doing the duty of currency in the country. It is a great misfortune that the framers of the Act should have made the unintelligent blunder of mixing up together in the weekly reports of the bullion at the Bank two absolutely dis-

similar and distinct things—the gold stored away at one office to face the bank-notes, and the gold belonging to the Bank of England as its private reserve as banker. The fluctuations of the notes denote that the public is buying fewer or more notes with gold, nothing more. Fluctuations, on the contrary, in the gold (under the form of notes) held by the banking department, are genuine changes in a banking reserve, and alone should be subject to discussions on the state of the Bank, the rate of interest, and other kindred matters.

There are good grounds for regretting the enforced publication of these weekly reports of the Bank's state. One consequence is extremely mischievous. These reports give figures only—nothing else. They do not say one word about the view taken of these figures by the directors of the Bank. They reveal nothing as to their principles of action, nor as to the relations which they place between the several items. They are silent as to the nature of the deposits recorded—as to the quality of these accounts in the judgment of the directors—as to what they conceive to be the probabilities of their increasing or being drawn out—in a word, as to the significance of these figures in the administration of the Bank's business. On the other hand, the public reads these figures, and interprets them after its own fashion, with no knowledge of the ideas which are governing the action which the directors found on these statements. They supply positive facts,—the figures are true and real,—and this tempts the commercial community to fall into the attractive snare of possessing a rule of thumb. A world of mistaken opinion, of heavy consequent losses, of unprofitable and

misleading discussions, of false theory and practice, would be avoided if these reports were confined to their proper places, the bank parlour.

4. By means of the Act of 1844 the great principle is carried out that the profit of the issues shall be at least shared by the State, and not be the exclusive gain of a private banker. The bank, we are informed by Mr Thomson Hankey, pays nearly £200,000 a year to government for the £15,000,000 of notes which are alloted to it. Its own profit from this source, after deducting expenses of management, amount to about £100,000. Thus the State reaps from the issue double the profit of that earned by the bank.

It remains to notice briefly some of the remarkable doctrines associated with the Bank Act of 1844. One of these regards its action as most injurious in crises. It restricts, it is urged, the supply of that assistance which agonised traders cry for in the day of alarm. But for this fatal necessity of buying notes with gold, the Bank of England, as well as other banks, would prop up the credit of solvent, but for the moment distressed, houses and thus extinguish distrust by advances of a kind of money which costs nothing to the distributor but is the saviour of commerce. Let the Bank lend freely on its own liability; every creditor will be delighted to accept its paper from a trader who otherwise could not face his engagements. Both creditor and debtor would enjoy the sense of inexpressible relief, and business and markets would be speedily restored to a healthy condition. Let the Act be suspended, exclaims the city. Its fathers, after a night spent in wakeful agony, besiege the dwelling of the minister for an order authorising the

law to be broken. If this feeling is well founded, then the cry should not be for suspension but for repeal. A law which thus crippled in the hour of distress does not admit of justification. However, a monetary storm in the city is a convulsion which makes even a chancellor of the exchequer tremble. On three occasions the suspending order has been granted, and the bank has been replaced in the position it occupied before 1844. It was permitted to issue any number of notes that it chose. Thus we get the means of testing the action of the law in those years. It can be tried by facts. In 1847, 1857, and 1866 the Act was suspended; with what results, as bearing upon restriction? Be it carefully remembered that in this matter the Act has only one single enactment: £15,000,000 issued without gold—for every note beyond that number so many sovereigns lodged in the vault. That is its only command. The question then becomes, did the suspension lead to what the law forbade? The answer is—No in 1847 and 1866, and with a trifling exception of £800,000, No, also, in 1857. Had the line of limit of uncovered issues stood in 1857 where it does now,—at £15,000,000—the answer would be a complete "No" for all the three suspensions. This is absolutely decisive. In 1847 and 1866 there was all the gold in the issue department for the notes issued which the law commanded; there would have been £800,000 less notes in 1857. The law was obeyed completely in two of the years. In the third the restriction was trifling—and if the suspension had been granted now, the charge of restriction would have fallen to the ground. The law was obeyed as a fact; the suspension made no difference. Hence

incontestably, suspension was proved to be a nullity. It did not give a particle of banknote relief to trade; it did not add a pound to the resources of bankers to grant help to traders. The demonstration for the two years is as perfect as any in Euclid. But this monetary Euclid notwithstanding, the city will clamour for suspension if any new crisis should bring upon it the requisite alarm.

Another merit is claimed for the law of 1844, and, indeed, there are strong grounds for believing that it was the chief motive which prompted the enacting of that statute. It regulates the circulation, we are told, and thereby makes money—that is, the lending of money—cheaper or dearer, according as the circulation expands or is contracted. Thus it steadies prices, controls speculation, regulates discount, and supplies a solid foundation for trade. Sovereigns and banknotes alone form "the circulation," and accordingly, upon this theory that the circulation determines the price of goods, alone deserve to be studied as the regulators of prices. But this is to lift us into the world of fiction and unreality. What is the idea of currency in the minds of these teachers? Plainly currency is something other and more than certain instruments for effecting some few exchanges of goods, some small buyings and sellings. Such a definition forgets that cheques, bills, and book credit perform the same identical work with sovereigns and notes. This being so, the diminution of one kind of these instruments only leads to an increase of the others. If bank notes were made fewer, or were all extinguished by the exportation of the issue depart-

ment's gold, the effect would be to force the public to use more cheques, bills, and book-credit.

But this view does not suit the authorities. They assign a specific and additional effect to coin and notes; and they pride themselves on the Act of 1844, not only as furnishing a safe bank-note—which is perfectly true—but also as an agent which peculiarly acts on prices. When notes and sovereigns are abundant, prices, we are assured, are inclined to rise; when they are deficient, the value of all commodities begins to droop, and then the doctor has provided a remedy for controlling the speculation by lowering the markets through a diminution of the circulation. This is a gratuitous and unfounded theory. The issue department does not control the circulation at all, but is itself controlled by the public, whether speculators or others, who take as many or as few notes as they please, according as they chance to have more or less gold to lodge in its vault. That vault is the inevitable destination of all imports of gold which exceed the business wants of the country. In the same manner, the tickets or notes given in exchange for this surplus gold find their way through banks to the common reservoir, the Bank of England. They may increase its reserve; but that is not done by any action of the law of 1844—for all that the issue department does, as we have already explained, is to take in gold, like a cloak-room, and to give tickets for it. It is purely passive. It is perfectly incapable of acting on speculators. They do as they choose in importing or exporting gold. The issue department is nothing but a warehouse, keeping the gold till it is wanted.

Nor can convertible notes produce any effect on prices

They never can be in excess. Whatever quantity the public has no use for, it either gets cashed for gold, or if in no want of gold, it passes through the banks to the common *depôt*, the Bank of England. In the latter case, the reserve of the Bank is increased, but increased by what? By a stock of gold for the moment imported into England for which no employment can be found. It is lying in store.

One doctrine more there remains to notice. It is perhaps the most extraordinary in the imaginative region of currency. It was the proud boast of the reputed authors of the Act of 1844, that this doctrine was the soul of that Act, the one principle which pervaded all its enactments. "By this means," said Lord Overstone on the 7th of July 1857, to the Select Committee of the House of Commons—"by means of the Act of 1844, effectual security is obtained that the amount of paper money in the country shall at all times conform to what would be the amount of a metallic circulation. Of this there can be no doubt. The paper money of the country under the Act of 1844 conforms strictly in amount and consequently in value to a metallic circulation. Those fluctuations in amount, and those only, which would occur under a purely metallic circulation, can and will occur under our present mixed circulation of gold and paper, as regulated by the Act of 1844."

A paper currency identical, not in value only but in amount, in the numbers circulating, with a circulation exclusively of coin, as a primary principle of currency, is indeed a truly astonishing assertion. Suppose the circulation to be made purely metallic, let any one imagine the stir in a banking house when in the mornings the

clerks had to be sent out to collect the sums due to the firm from banks or others who did not work through the clearing house. A small portfolio and a trustworthy clerk used to gather and bring home thousands, possibly a hundred thousand pounds; but what was to be done with those dreadful sovereigns now that there were no bank-notes? Who was to carry them? a porter, or a cab? If a cab, two clerks must go, for one must stay in the cab on guard whilst the other stepped into a house to receive payment. And then the weighings across the counter, the time lost, the risk of robbery, the sight of the bullion bags as they were shot into the cab. Is it supposed that any banking-house could endure this? Is it not obvious that fresh appeals would be made to additional clearing-houses, and to the mightiest of instruments, the cheque—that sovereigns would be eschewed by every man of business—that the disappearance of the note would scarcely have enlarged the use of coin, but that the cheque, the unprotected cheque, which no Act of Parliament renders safe by a pre-required stock of bullion, would dominate sole and all-powerful in the City?

And then the confusion and perplexity in every household! The gentleman who loved to carry a score or two of pounds in his pocket, what was he to do with all this weight? Could he despise the laws of gravity? The gambler, too, who staked hundreds or thousands every night, and from whom instantaneous ready money payment was demanded, his perplexity would be great indeed. Would the winner be content with his cheque? would he like his banker to find such cheques coming in every morning? The fine lady also, on her shopping

rounds, what was she to do? She might be buying where she was unknown—what must be done with that dreadful bag of sovereigns? More buyers on credit, fewer purchasers with ready money, more banking and more cheques, would be the only escape from such embarrassment.

No doubt, the covered notes from the issue department vary as a purely metallic circulation, for they are themselves metal; the notes out are only their tickets. But what of the uncovered fifteen millions? Suppose them to be suppressed; can any one imagine that fifteen fresh millions of sovereigns would be bought from the miners to do the work previously performed by the notes? If he does, he must have peculiar ideas on the effects produced by weight and exposure to robbery on the human brain.

One omission the Bank Act has committed; it is silent on the denomination of the bank notes. It does not raise the one pound notes from their graves. Of this the ill-will of the bankers, there can be little doubt, was the cause. Their objection was a mechanical one. They hated the countings and, if need be, the taking the numbers of these paper-heaps. It meant more trouble, more clerks, and more expense. The question was mooted in the Select Committee, but the bankers refused to turn their eyes to the long established success which these notes had established in Scotland and Ireland—how useful they had proved themselves to be, how they were actually and daily preferred by sellers to sovereigns. They were so much lighter and so much easier to guard. What was the saving which the nation would gain by using a very cheap instead of a very ex-

pensive tool for performing the same work in comparison with the worry inflicted on cashiers?

Small notes have proved successful over a wide range of countries. In some the two shillings note is found to work exceedingly well. Mr James Wilson, when Financial Member of Council, proposed a ten-shillings note for India. One pound notes were put down in England mainly on account of the losses incurred by many comparatively poor persons in the great breakdown of 1825. But those losses came from the bad quality of the issuers. The issuing bank took people's money, repaid them with paper, then did bad business and lost their capital, and serious misfortune overtook the note-holders. The argument of a bad issuer applies quite as much to a £5 or a £100 note, as to the £1. There is, it must be admitted, greater danger of forgery. The persons who take a £5 note and above are more careful in examining the paper than the mass of those who would take a five or ten shillings note. But the admitted good working, on that score, of small notes in America, Austria, Italy, and elsewhere is a complete reply to the objection. With so perfect a convertibility as that guaranteed by the Act of 1844, why not restore the old one pound note? But prejudice and ignorance are not likely to be soon overcome.

INCONVERTIBLE NOTES.

We have now reached the plague spot of paper currency—the inconvertible bank-note. Fortunately in England its true character has long been understood. It lingered awhile in theory after the nation had

acquired a thoroughly sound currency; so fond, so irrepressible are the dreams of relieving distresses of trade by experiments in currency. It is a most satisfactory proof of how thoroughly the people of England have discerned the nature of a currency built up of promises to pay without payment that during the severe commercial depression, which still weighs on the country with unexampled duration, no quack doctor has proposed in any quarter either the repeal of the Bank Charter Act, and still less remedies drawn from the inconvertible note.

A long statement is not needed to make known its qualities, though volumes would be required to answer in detail the ever streaming and irrepressible pleas advanced in support of proposals for its adoption. The marvel is that so many ingenious and acute things can be urged in behalf of such a client.

The inconvertible note is a bad tool. It does bad work, but yet not always. It is capable, under particular circumstances, of doing good work, but then that is not the object of which its advocates are in search. We know that the work of money, of every tool of exchange, is to effect buying and selling by means of an intermediate instrument which gives to the seller a sure guarantee that he will be able, by means of it, to acquire other goods, at his own choice, of equal value with those which he has sold. We have seen that the guarantee furnished by coin is the value of the metal of which it is made. Further, we know that men will give away their goods on credit, relying on payment on a future day; in fact, they take a debt as a guarantee of future payment. The same motive persuades them

to accept the debt expressed on a bank-note. That motive acts on all other sellers, and thus the bank-note circulates as currency, and is not presented for payment, if wanted for circulating use. Then we have seen that the public makes no other use of the metal of coin than as a guarantee of value. Similarly it employs the debt pledged in the note for the same identical purpose of guarantee. It does not seek to sell the gold of the coin to a jeweller, nor to ask payment for the debt, so long as it thinks that debt trustworthy.

This explanation is necessary in order to arrive at a right understanding of the fact, that the inconvertible note, in spite of the hollow principle on which it stands, can, under a special condition, do good work as currency. When the debt is thoroughly trusted, and when no more of these inconvertible notes are issued than the public requires for actual use, and consequently which it feels no desire to send in for payment, they remain in circulation on a full level of value with coin. Thus it happened that after the passing of the Act of Parliament which forbade the Bank of England to pay its notes in coin, those notes suffered no depreciation. The Bank was perfectly trusted as a debtor, there was no excess of issue, and the notes retained their full value of twenty shillings undiminished.

But the situation became vitiated at its very core when too many notes were issued. Their fall of value went on to the extent that a sovereign became worth twenty-seven shillings in notes. Thus one hundred guineas were worth one hundred and thirty-five one pound notes.

That the inconvertible notes should be limited to the

number which the public will always retain without sending in for payment, even if convertible, is precisely what the advocates of such notes do not desire or practise. The temptation to obtain supplies of goods is irresistible to governments who once take their stand on the slippery ground of promises which need not be paid. The theorists too of all kinds who preach up "soft money"—who think that there cannot be too much money—that money gives the means of buying, and so is good for trade—and that when prices are low, and goods even unsaleable, the fault lies with there being too little money, and that a fresh supply will set everything right—such persons have for their very object indefinite issues of inconvertible paper.

In considering such notes, therefore, we proceed on the supposition that they are sure to be issued in excess, and that that excess is always susceptible of increase.

Such a note is a bad tool. It does its work badly and that bad work is attended with most mischievous and loss-inflicting results for a country. It is not merely that it is inefficient, that it resembles an old-fashioned machine, which produces smaller effects than one of an improved shape. The inconvertible note's work is evil work; it distinctly produces harm.

That harm is the consequence of the badness of the guarantee it furnishes to the man who is obliged by the law of legal tender to accept it for payment and to give a guarantee is the one sole function of currency.

The guarantee is bad because it is exposed to incessant change of value. All nations require different amounts of currency for use at different times. In England, more sovereigns and notes are needed in summer than

in winter. When winter comes, the sovereigns and notes in excess flow back into store, and there is no alteration of value for those which remain out. But inconvertible notes cannot relieve themselves in this manner. They must stay out in circulation; they must be in excess at such seasons, and down sinks their value, and the worth of the guarantee they give. But much more yet; the issues cannot be prevented from causing them to be always in excess, and which is yet worse, increasing excess, whether actually or prospectively.

And now for the consequences. The law of supply and demand asserts itself here, as everywhere else, in Political Economy. Too great a supply means fall of value. People find that they have more notes than they want. To get rid of them, they make a sacrifice of value; they consent to reckon them for less than their nominal worth when making purchases of commodities.

But what does such a depreciation mean? That every creditor is injured who is compelled to take them at par, and every debtor unjustly benefited at the creditor's expense. The prices of goods in every shop are raised to meet the defective value of the notes. The shopkeeper is charged twenty-seven shillings in notes for what he would procure for a guinea in metal. Thus the creditor who had a debt estimated in guineas and received a one pound note and a shilling was nothing less than plundered. The magnitude of this injustice and wrong may be conceived if one thinks of what the holders of consols and other public securities would suffer if the pound received as interest stood in the same proportion to the sovereign as the note to the twenty-seven

shillings guinea. Their buying income would be reduced by nearly a-third. And what temptation is thus created for governments to pay off their national debts with heavy discounts, and all on the plea of legality and the use of an enlightened currency. Thus, the one single function which currency was invented to discharge is radically corrupted. Instead of effecting the exchange of equal goods in two purchases by the intervention of money, the bad note exchanges goods in unequal quantities; the seller, when he buys in turn, gets less than the worth of the goods he sold.

But the evil does not stop here. The undulations of the disastrous fall of the stone in the water spread in ever-widening circles. Gambling is introduced into every act of trade—an element most hostile to the nature of true trade and full of ruinous consequences. The shopkeeper who sells in January to be paid at Christmas does not know what will be the value of the note which he will receive then; he protects himself by adding an increased figure to his prices by way of insurance, and by this process a heavy tax is imposed on consumers, that is, on the whole community. So also on the foreign merchant. He imports goods into a country to be paid in bills—but what will be the worth of those bills in metallic money, which is always the only international money, when the bills become due? Again the dealer protects himself by adding an item of currency insurance to his cost of production—and that cost of production all his customers, if the trade is continuous, must pay.

And all this disorder, this taxation on all buyers, this most unjust and cruel wrong and loss inflicted on

all creditors, this tainting of all trading with gambling by the use of a tool which refuses to do the one work it was invented for performing, what assignable motive can it have?

One motive it has in almost every case—what Mr M'Culloch calls "the enrichment of one part of society at the expense of another." We cannot do better than listen to his description of the process adopted to effect this object. "Directly to alter the terms of contracts between individuals would be too barefaced and tyrannical an interference with the rights of modesty to be tolerated. Those, therefore, who endeavour to enrich one part of society at the expense of another find it necessary to act with caution and reserve. Instead of changing the stipulations in contracts, they have resorted to the ingenious device of changing the standard by which these stipulations are adjusted. They have not said, in so many words, that 10 or 20 per cent. should be added to or deducted from the debts and obligations of society, but they have, nevertheless, effected this by making a proportional change in the value of money." *

One plea most commonly urged in defence of inconvertible bank-notes appeals to necessity, the political distress of the hour. The State is in sore want of means, and the limit of taxation has been reached; what else can a Government do at such a time but provide what is indispensable for the safety of the nation, but pay with promises to be made good at some future day? With these inconvertible notes it pays no interest on what it borrows; by an increase of the ordinary

* "Metallic and Paper Money and Banks," J. M'Culloch.

National Debt an increased taxation would have been unavoidable. This may be so; at a moment of danger such a proceeding may admit of some excuse. But it should never be forgotten that the harm inflicted by such a currency goes on uninterruptedly year after year; it never stops; it is always working fresh injury. It goes on persecuting society at every turn. It poisons every sale as time rolls on, every exchange. Overwhelming necessity may extenuate the imposition of so easy but so vicious a tax. But the pressure once over not a day should be lost by any Legislature which has any knowledge of the nature and working of money, to arrest the plague and sweep away the inconvertible paper, which it felt forced to have recourse to in the hour of danger.

CHAPTER XIV.

BANKING.

WE have now reached the great financial institution of modern times—banking. It is an agency for performing the all-important service on which civilisation depends—the exchange of commodities produced by different makers on the fundamental principle of division of employments. Thus it does the same work as money or currency; banking and currency are two different machines for performing the same function. They both transfer goods and property from the hands of one person to those of another. That is their one and only task. They do nothing else, and this is a truth sadly unperceived, and yet one which cannot be too firmly grasped, if light is ever to penetrate into this region. They each employ two operations to complete one transaction. The farmer buys three sovereigns with a sheep, and then with those sovereigns he purchases guano; a sheep has been exchanged for guano through the intermediate agency of money. In precisely the same manner the farmer again sells a rick of wheat for a cheque or bill, and his banker with that cheque enables a merchant to buy tea. Wheat has been exchanged for tea by the help of certain writing within banks. There is no difference whatever in the essence of the process, though, of course, the mechanical machinery actually employed in each case varies in

detail. Banking and money are purely tools of exchange, and nothing else.

But banking is not money nor currency of any kind. Endless confusion is generated on every side by this fatal misconception. Money does its work by means of a valuable metal; banking employs for its tools words written on pieces of paper called bills and cheques, which give legal claim to the metal called coin, and for which the courts of law will, if need be, compel that coin to be given. Thus debts expressed on paper are the tools with which banking works. Some little money it touches, as every business must; but both for banking and for the collective trade of a highly commercial country, coin, money, is absolutely nothing but its small change. Many regard the cheque and the bill as money, equally so credits opened in banking accounts; but if they are money, then farewell to all possibility of understanding what money is. Upon such ideas, a letter must often be regarded as money; for many are the payments which a banker effects without a bill or cheque, in compliance with the instructions of a letter. To jumble up into one heap coin, notes, money, banking, currency, cheques and bills, is to refuse to understand what are their natures and manners of working.

We have asked and answered the question, What is money?—let us do the same for a bank. What is a bank? A banker is an intermediate agent between two principals; that is the very essence of his action. He is as truly a broker as a tea-broker in Mincing Lane or a cotton broker in Liverpool. Like them he brings a seller and a buyer together, or rather, which is the same thing in substance, a lender and a borrower; and

as the cotton broker transfers the cotton of the American merchant to the hands of a Manchester manufacturer, so the banking broker transfers the property of a lender to the disposal of a borrower. What the banker has to transfer, his power to act, comes from his depositor; he passes it on to his second principal, the borrower, to whom he decides to entrust it. The conduct of this operation constitutes a business, a trade; and the question immediately arises, What is the article in which a banker deals? what is it that is deposited at his bank? what is it that is lent by him and borrowed?

A banker deals in money, all the world replies. People take money to a bank, and procure money from it; what can be plainer? Nothing can be more untrue. A bank does not deal in money. It touches ½ per cent., ten shillings only in coin, in true money, of all that it handles. If notes are included in money, 3 per cent., Sir John Lubbock tells us, is all the cash that it receives. Every week in London alone, banking operations are accomplished at the ClearingHouse—that is, buying and selling of goods through banks—to the gigantic amount of one hundred millions sterling; and yet not one farthing of money has been passed or handled. If we take banks in places in which there is no Clearing Houses, a little more cash will be used; but all over the country the great buying and selling of the people is carried on by cheques. Debts of every kind are paid with cheques; these cheques are placed to the accounts of the receivers; they in turn draw upon these accounts; and so the transfer of commodities, the purchase of merchandise, as of domestic wants, is effected for all but trifling

ready money payments, without setting a shilling in motion.

This is banking; and the vital question remains—What are these ninety-seven things which a banker receives, and with which he does all his work? In direct words, What are deposits? Debts to receive; and this is an answer which goes down to the very root of banking. They are orders to receive money, which the debtor is bound by law to pay at the time specified. But they are not money; an order to pay money, a written request to pay coin, is not the coin itself. To call it coin or cash is a pure absurdity. A man who deposits a cheque with his banker asks him to collect for him a debt due by another banker. A cheque on a bank implies that it owes money; and it is an instruction from its creditor to pay it to the holder of the order. We thus discern what the ninety-seven parts of a bank's receipts are composed of; they are debts to collect on behalf of its depositors. How, then, are these debts paid? In money—which the banker can demand? By no means. These debts are paid by reckonings in account. If the bank is in London, they are sent to the Clearing House, and figure as items to the credit of the sending banker. If in the country, the banker who is to receive them from the bank drawn upon probably has counter claims to pay, and the balance alone passes. Otherwise they are paid in notes—but these notes move about with marvellous rapidity, and at the end of the day, there are many changes in many accounts, but the cash in the town remains the same.

The next question, and it is a most critical one, is—

how came the depositor to have a debt to give to the banker to collect? In answering this question, it must be carefully observed that we are speaking of the first appearance of the deposit in the banking community. We must not introduce here mere movements between banker and banker, shiftings of deposits from one portion of the money-market to another. The deposit, then, at its origin, arises from the sale of property, from nothing else. The man who gives a cheque to a banker has previously sold something. If he be a receiver of rent or an owner of dividends or consols, the fact equally holds good. The farmer has sold for the owner of rent his share of the wheat and hay which comes to him as landlord, or the public has sold goods wherewith to pay the taxes imposed for the National Debt. There is no exception whatever; the resources of banks, at their origin, come from goods sold. On the other side the counter cheques at the Clearing House denote goods bought.

The course which the operation takes is now clear. A manufacturer has sold 1000 tons of iron, and has been paid with a cheque, which he, by lodging it with his banker, requests him to collect and to place the amount to his credit. Now, if the iron-master draws out the sum due on this debt as soon as paid, the banker becomes a mere collecting clerk, and true banking, as it actually exists, would not come into being. But another fact makes its appearance. The manufacturer will not want for three months, say, the proceeds of 600 tons of the iron sold. He will draw for the present one cheque only on the bank for the purchase of coals up to the value of 400 tons, and this the banker knows. Now commences his specific action. He knows that he has

at his disposal the proceeds of 600 tons of iron sold; he resolves to lend them for three months to a sugar merchant who had brought him a bill for discount, and seeks to obtain the means of buying. Give me your bill, says the banker, I will place the amount to your credit, and draw upon me to that extent. The result is a purchase of sugar. This simple statement unfolds the real nature of banking. The banker appears here as an intermediate agent, as a broker, who finds for his principal, the iron-master, another principal who will employ his means in buying sugar. Not a shilling of money or cash passes in the transaction. The sales of the iron and of the coals and sugar meet at the Clearing House and settle each other there. The iron is paid for with coals and sugar; in economical language, iron is exchanged for coals and sugar. The banker is a mere go-between—a broker; it is the iron manufacturer who is the real lender of sugar to the merchant.

This analysis tells us what it is that a banker deals in. What tea and sugar are to the grocer, purchasing power is to him. That is his staple; the commodity which constitutes his business. This power consists in the fact that the man who has sold can, by that very act, buy also; the goods he has parted with give him, directly or indirectly, the power of obtaining others in exchange. The power is transferred by the depositor to his banker; the banker passes it on to his borrower. The sugar merchant can buy because the iron-master has sold. It is the possession and sale of goods by his depositors which enable a banker to carry on any banking. Banking is an affair of goods, of goods transferred and not of coin or cash, except as machinery, and that

to only an insignificant amount. Further, we see what deposits really are, debts due by a banker for a power of collecting money which has been lodged with him, and which exists for him in the debts due to him by his borrowers. Iron, coals, and sugar are the whole substance of the banking in this transaction. They are the whole of the money-market also, for this transaction is the exact type of all the others, saving only the shuffling about of these debts amongst the bankers themselves.

The broker character of the banker is very visible in these transactions. He is a medium between the iron-master and the sugar merchant, and a medium only. The banker is the link between the two, who, so to speak, introduces the one to the other. What can be more obvious? it will be said; a mere truism. If it is a truism, then it is Political Economy of the right sort; only unfortunately it is a truism hourly forgotten in every banking community in the world. The great value of recognising that the banker is in reality a broker only consists in this, that it keeps before the mind the great central fact,—a fact of incalculable importance for its consequences,—that it is the two principals of the banker, his depositor and his borrower, who possess all the forces of banking, and are the doers of all that occurs in the banking world. The great events of banking, the abundance or scarcity of its resources, its ability to assist trade, high or low rate of discount, panics and crises, depend not on banks and bankers, but on the state of the wealth of the country, and the effects which it produces on the two principals whom the banker has brought together. The banker's one sole function is to

select the borrower. There is no truth in banking more cardinal than this, none that requires to be more deeply impressed on the mind of every trader and every banker.

Yet the part which the banker plays is very important. He neither created that wealth which his depositor sold, nor does he touch that other wealth which he enabled his borrowers to purchase; but it signifies immensely to what kind of borrowers he transfers the power of buying, by authorising them to draw cheques upon his bank. On him and his brethren it mainly depends whether the men who acquire the wealth of the nation, its stock of commodities which they reach by the banker's agency, will employ it wisely, by applying it to processes which reproduce its consumption, or will waste and destroy it in prodigal expenditure, or unskilful trade, or reckless speculation, or in creating an excess of fixed capital which will not for many years replace its cost of production. This is the sole range of the banker's action. Omitting the capital which a joint-stock company puts into a bank, the banker possesses no capital, except his premises and any coin which may be in them, however much commercial and monetary literature may ascribe capital to banks. Lines and names in ledgers, cheques at the Clearing House, debts due to depositors, debts due upon bills by borrowers, are neither wealth nor capital. They are words and nothing more. Incorporeal property, under which these kinds of written words have been summed up, is not wealth; it is merely a collection of title-deeds, but from which the reality is absent. The *corpus* is not in those

deeds, but the right to acquire that property, even before possession is obtained, is itself a property. If a title-deed or a mortgage is declared to be actual wealth by Political Economy, then the sooner it is consigned to the waste-basket the better.

But it will be said, when bankers' balances—not composed of gold—are described as loanable capital, all that is meant is that there is unemployed capital in the nation seeking employment. Then why use false and misleading expressions which call away the mind from the real truth of facts? The capital with which a bank is connected—independently of its metallic reserve—is the corn which the farmer sold, and the tea on the ocean on its road from China which was bought with the merchant's bill that the bank discounted. "Commodities in transit," as Mr Bowlby Wilson justly remarks, "between the producers and the ultimate consumers, represented by their title-deeds, such as bills, drafts, and cheques, make up the bulk of the floating capital supplied to the loan market." The capital of which bankers possess the command lies in shops and warehouses, in docks, ships, and stores.

The enormous service which banking renders to a people consists in its providing machinery whereby these stocks of commodities are brought out into use, and are placed in hands which can apply them to both production and consumption. Loanable capital is abundant when the farmers and their brother depositors have sold much, and borrowers seeking the means to buy with are few and shy. "Bills are scarce" is a cry often heard in the city; what does it mean? That there is commercial depression—that markets are flat, and little busi-

ness stirring—that production is diminished, and that purchasers eager to borrow materials or wages to give to workmen fail to come forward. Or again, "Bankers' balances are small, and loanable money is scarce" proclaims that the farmers have had a bad harvest, and have little corn to sell, and so have no surplus above their expenses to deposit, or profits are low, and merchants have little to place at banks. Or else it may be that profits are very high and speculation very brisk, and promoters of new and costly enterprises, openers of new mines, builders of fresh factories, greedily take up every pound that the banks can spare for lending. These are not facts created by banks, but they are the essence of the banking business.

In one respect, however, the banker is distinguished from the ordinary broker. The latter usually confines himself to finding a buyer or seller for his principal. He seldom undertakes any responsibility for the man he introduces, and he is rewarded by a simple commission on the transaction. The banker, on the contrary, guarantees the solvency of his borrower, for he is answerable to his depositor for the repayment of the deposit. He selects a borrower at his own discretion and risk; the depositor trusts him, and him alone. The depositor knows perfectly that the banker must and will lend his deposit, that to be lent was the sole purpose for which the deposit was accepted; but the only part that he takes in the matter is to trust his banker, and to rely on his liability to repay the deposit when demanded.

The banker's reward is derived from the terms on which he grants loans to borrowers. It is obvious, moreover, that banking necessarily implies an understanding

that the depositors shall, as a rule, leave a balance in the banker's hands. If the deposits were withdrawn as fast as they were lodged, the banker would have nothing to lend. His only way, then, of earning a profit would be either to turn common broker and to charge a commission on every transaction, without making himself responsible for the solvency of the borrower; or else to invest the purchasing power he receives in buying Government bonds or other securities capable of being realised at any time without any probable loss. But experience teaches him that he lies under no such necessity. He discovers that in ordinary times, with a large number of depositors, demands for immediate repayment of deposits are subject to a general law of average, on which he may as safely rely as life assurance companies rely on a similar average in the death-rate.

A banker obviously cannot lend the whole of his deposits. He does not know when his customers will draw cheques against their accounts. On any day he may be called upon to pay more than he receives, and he must have a stock of cash in hand to face such contingencies. That stock in hand is called a reserve. It is procured by the banker granting smaller loans than the sums which he obtains on the collection of the debts in which his purchasing power reaches him. This reserve protects him against sudden and unforeseen demands; it rescues him from the danger of having no money when he is called upon to pay. From the nature of banking which discounts the bills of manufacturers and merchants, the banker is obliged to lend for periods more or less long. The bills he has discounted may be perfectly sound, but they are not yet due. He may possess much

wealth, but it cannot be reached at the moment. Security against this danger is a necessity inherent in modern banking. It is the one specific object of a reserve.

How large ought this reserve to be? No more critical question can be raised in the practice of banking, and there is none which is the subject of more incessant discussion. One principle, and one principle only, governs the decision on the fitting magnitude of a reserve—safety. A reserve has no other reason for existence than safety. A flood of excited and never settled discussion is at once swept away by the recognition of this determining principle. Be it Bank of England, or the smallest bank in the country, the rule is always one and the same—what reserve ought it to keep in order to be safe, safe against having no money when asked to pay its liabilities. Every other consideration is irrelevant—ought not to be listened to in this matter. Each bank has its own particular position. The measure of safety varies with the circumstances of each. A country bank fed by rich depositors, of steady habits, and carrying on a business of pure routine, can find an exceedingly small reserve sufficient. A bank dealing with a highly speculative community, exposed to great fluctuations of fortune, is summoned to keep a much larger margin of reserve. But in every case the possible demands of depositors is the one thing to be thought of.

In a nation trading with all the world, and subject to the changing fortunes of each country with which it has commercial dealings, great fluctuations in the reserve of its banks will necessarily occur. But the important

matter for a banker to study is not the movements up and down of his reserve regarded as isolated facts, but the forces which are acting upon it. If he desires to learn the present state and the future prospects of the banking community, it is not the actual figure at which the reserve stands which will instruct him. The real things to learn are the state of his depositors and the state of his borrowers. What is happening to them? are they going on as usual, or are they under exceptional circumstances? and if so, what are those circumstances? Are they likely to increase deposits, or to incur losses which render it difficult, if not impossible, for borrowers, on bills or other securities, to meet their engagements to the bank? These are the vital things to study, and these are the considerations which ought to determine the course which the banker ought to pursue. To the full extent of providing against a run on the bank, the policy of a reserve, however great, is perfectly right and justifiable. But an accumulation of reserve upon a general idea that it is well to have a good stock of gold is a policy destitute of reason.* A very small stock of gold has been found perfectly compatible with safety, as in 1866; at other times, a large reserve has not prevented convulsions in the money market, and even much danger to banks. The gold by itself alone tells little to a banker. In what state is the banking—the deposits and the loans made by the banker—is the master question of the situation.

Nor does the amount of the circulation of gold and notes moving about the country deserve any notice from the banker in determining the magnitude of his reserve.

* See Appendix, p. 487.

A strange delusion set in with the Act of 1844—though not countenanced by a single word in the Act itself—that the circulation possessed a power of controlling the movements of banking, and that, if properly handled, it could steady the vicissitudes of the banking market and regulate its rate of discount. There is reason to believe, as has been already remarked, that this idea gave birth to the enactment of that statute. But this idea was a dream of the imagination—a principle built on the sand. The variations in the circulation are a petty trifle by the side of the gigantic operations of banking. A greater or less quantity of small change—of the instrument required for petty transactions of ready money payment—what influence could it have on the events happening daily at the Clearing House? What banker required a stronger reserve to be locked up in his chest, because farmers needed more sovereigns in summer, or travellers were roaming over the land with a supply of notes in their pockets? Or did the Bank of England, or any other bank, ever lower, as a rule, its rate of discount in winter, because a reduced circulation brought cash back to their reserve? The notion is too absurd to need discussion, yet there are thousands who look at the weekly reports of the notes issued in order to learn what events are about to happen in the banking market.

The City world, and those who write on banking, set up the theory—if that can be called theory which is composed of affirmations only—that the amount of the reserve of the Bank of England, taken in the ratio it bears to the Bank's liabilities, scientifically ought, and practically does, govern the rate of its own discount, and indi-

rectly of that of the whole money market. Now, in the first place, it is necessary to bear in mind that the Bank of England is absolutely nothing more than a single private bank—a bank justly commanding great power from the magnitude of its operations, and the excellent character of its mode of banking, but still a bank acting for itself and in its own interest, and not unfrequently in direct variance, as to its rate of discount, with that upon which loans and advances may be procured at the other banks in the City.

Secondly, it is undeniable that in fixing the size of his reserve, every banker must necessarily compare his money ready in hand with the amount of liabilities which may be sent in for payment. This is very plain; but it is very far short of furnishing a scientific rule, capable of being expressed in definite figures. There is nothing scientific in it of any kind. It is little better than a rule of thumb, and for this reason—that it leaves out of account the nature and quality of those liabilities, the position and probable feelings of the depositors on a given day, the character of the influences which may be taking away or bringing in gold, the aspect of the commercial and even of the political horizon, the state of men's minds, whether agitated or calm, and other similar elements of the situation. All these circumstances, according to their character on a given day, may act with great force in overthrowing a fixed and definite so-called scientific ratio.*

For instance, would the propounders of this doctrine of a determinate ratio of reserves to liabilities, maintain that if out of a reserve of ten millions—times being

* See Appendix, p. 487.

quiet, no commotion or alarm in the money market, business running in its accustomed groove and deposits standing much at the same figure—a bad harvest suddenly prompted extensive purchases of corn abroad, whereby five millions were lost to the Bank out of the ten—would, I ask, the ratio theorists affirm that the Bank would be bound by an immutable law of banking to make spasmodic efforts to restore by a violent rate of discount the prescribed size to the reserve? It is impossible to conceive upon what arguments, what facts furnished by an analysis of banking, the existence of such a law and the rationality of such a practice, can be established. That the directors of the Bank of England should deliberately determine at what point the Bank may be in danger of not being able to meet the demands of its depositors is very conceivable indeed, though I do not believe that for many long years they ever did anything of the kind. If they ever did, the quality of the deposits and the circumstances of the hour most assuredly will have entered largely into their judgment. An arbitrary and unalterable ratio between deposits and reserve has no knowledge or science at its foundation.

It might well be, that in the instance here supposed, sudden and large purchases of corn should be accompanied by a considerable rise in the Bank rate of discount, but the propagators of the ratio theory would be grossly in error if they imputed it to an effort to call back gold to the reserve. It would have a very different cause. These purchases would be effected to a very large extent with means borrowed from banks; thus the number of borrowers would be notably increased, and the demand for accommodation in the money market

strengthened. On the other hand, the means for lending would be greatly diminished by the deficiency of the harvest. The expense of tillage would have been incurred without replacement by crops, and the corn bought would practically have been procured with two successive outlays of cultivation. Raised terms for lending would thus be inevitable and natural, while the export of gold would enable the country to obtain its necessary supplies with capital which had been dormant and whose loss would not be felt.

That the Bank of England does not act upon any such doctrine of a fixed ratio of reserve to liabilities is certain. This is incontestably proved by the following record of the policy its directors adopted in the crisis of 1866. It gives the state of the Bank at two periods separated by an interval of about a month..

	Liabilities, Millions.	Loans, Millions.	Reserve, Millions.	Rate of Discount.
April 25,	$13\frac{1}{4}$	$18\frac{1}{4}$	$6\frac{1}{4}$	6
May 30,	$20\frac{1}{2}$	$33\frac{1}{2}$	$\frac{3}{4}$	10

In April the ratio of reserve to liabilities was not far short of 50 per cent.—in May, it had dwindled down to less than 5. But what course had the directors been pursuing? They had voluntarily, by their own free will and with open hand, run out their loans from $18\frac{1}{4}$ millions to $33\frac{1}{2}$. What could their reserve do but fall away under such a process? and what could such voluntary action mean but that the idea of a fixed ratio between reserve and liabilities was totally absent from their minds?

But this table makes a second revelation as to the feeling of the Bank Directors. They resolutely poured forth these profuse loans upon a convulsed and

frightened money market, lowering away their reserve against the possible demands of depositors to less than one million.' Would it have been possible for men at the helm of such a national institution to have acted in such a manner, had the thought been present to them, that by such conduct they were seriously endangering the solvency of the Bank, its power to meet the demands of its creditors to be paid in cash? That feeling was absent from their minds, and that absence is most significant as to any real conviction having established itself in their thoughts that a paltry reserve was inconsistent with the safety of the bank. Nay, this very contempt for gold, this resolute determination to lend away, was carried out under the loud exhortations and amidst the vehement applause of the most ardent preachers of salvation by gold. What sort of faith had they in their own theory?

Thirdly, the records of the same memorable year 1866, compared with those of 1856—(as given in "Currency and Banking," p. 124)—demonstrate that the doctrine which makes the rate of discount depend on the quantity of the reserve is an absolute untruth. The real indisputable fact revealed by the bank's weekly reports is that all sorts of reserves accompany all sorts of lendings.

And then again, what must we think of the consoling announcements poured out upon depressed traders that better times are coming, for gold is on its road to England? What, but that they betray a profound ignorance of the great truth, that coin and gold are useless except when they are parted with, that they produce nothing themselves, that they must be bought with equal value of

wealth given which they do nothing to replace? If they are needed as tools, as carts for putting wealth in different places, then they render useful service. But if there is already enough of such carts, and consequently if the new arrivals must go into the cellar, trade is the poorer, there is less to produce with and to exchange, by the amount of the capital which has been lost by the purchase of such gold. The way to cheapen discount is to increase goods; for as no one borrows of a bank but to buy goods, and no one deposits at a bank but in consequence of his having directly or indirectly more goods than he can use and of having sold them, a larger stock of goods is an increased supply of the things demanded through banking, and necessarily leads to easier terms for lending them.

But what then is the power which governs the rate of interest? Not the desires nor the will of the banker. He is a seller in a market and he falls under the law which rules all markets, the universal law of supply and demand. The banker is a seller of loans for hire; their price depends on the relative strength of the lenders and the borrowers. Nay, he is more dependent than other sellers; for the amount of what he has to lend is regulated for him by others. He lends what comes from others; their power to supply him with the means of lending is the measure of his resources. The respective conditions of his depositors and his borrowers, the state of their several fortunes, are the true regulators of the terms of lending.

The banking market sad experience has shown to be subject to violent convulsions. No ordinary trade is shaken by similar storms. Their consequences are fear-

ful. Panic, nay terror, often break out on every side. Even the strongest tremble with a feeling of fear. Firms enjoying the highest reputation are suddenly and unexpectedly brought to the ground. The whole city is agitated with excitement as to the stability of even the best names. Bankers are goaded by alarm to recall their loans—or where that is impossible for a time—look with uneasy pangs over the solvency of the bills they hold. Distrust arrests their hands. They are slow to grant accommodation, even to those to whom a few days previously they would have cheerfully granted profuse advances. This strikes a deadly blow at the heart of trade. Traders of every kind rely on discounts and loans to be obtained from banks; the stoppage of discount smites houses which have done nothing to merit discredit. The agony spreads over the whole country; where the evil is to stop, what houses, speculative or not, must succumb, no one can tell. The fathers of the city spend the long night in council; panic seizes upon well nigh every soul.

Such were the agitations, the agonies, and the ruin seen in 1847, 1857, and 1866, and such were the events which Mr Mill summed up under law, and to which he assigned an orbit that would bring them round every tenth year. They did not reappear in the prophesied form in 1876 or 1877; but the commercial depression of the last three years prevents the prediction from being regarded as absolutely vain. To understand the nature of these commotions, to discover their causes, and if possible, to forewarn and to prevent them, becomes a matter of supreme importance to the whole nation.

In the first place, it must be observed that an ac-

cumulation of losses, however severe they may be, does not constitute a crisis. The disasters created by the cotton famine in Lancashire, and spreading from that centre, all over the kingdom, were fearful. One of the greatest industries of the nation was paralysed. Mills without number were thrown out of work. Capitalists, not a few, were brought to ruin. The workmen could find no employment, and were deprived of all means of supporting themselves. The banks did little business; neither depositors nor borrowers, in any number, were to be found. The great supply of cotton had been cut off—what was to be had became excessively dear. The consumption and purchase of cotton goods dwindled away amongst the widely spread customers of England. Yet that was no crisis. The alarm of vague terror was absent. Commercial houses reduced their business gradually— the banks had not to encounter sudden failures and subsequent suspicions. They gathered up payment of their debts; but depositors and manufacturers seeking discount faded away. The suffering was beyond all measure severe; but there was no panic.

So again is it now. At no former period of commercial history has commercial depression weighed, not only upon England, but upon every great trading nation, with severity so sharp, and duration so long; yet here again a true crisis is wanting. There has been no convulsion in the money-market of England. Yet many industries, with their machinery of banking loans, their capital and their wages, have been sorely cut down, and in many cases stopped altogether The middle classes, the merchants, and the manufacturers have been involved in the same common disaster with the

operatives. Nevertheless there has been no disturbance in the city—no paroxysm of blind terror fell on bankers, bill-brokers, depositors, and the monetary community. Business is flat, bills scarce, profits low; in some regions mercantile houses have died away from inanition, and losses have abounded, but crisis, panic, spasms, there have been none.

A true crisis is an event of banking. Banking has trust for its foundation. The depositor trusts the banker, the banker in turn trusts his borrower. He takes security, it is true; but banking securities are not absolute property. They are seldom substantial wealth, but liabilities undertaken and expressed in writing by trusted names. The mercantile and the manufacturing bill, on which names of good repute are written, are the instruments as well as the guarantees of safety on which banking relies; but what, if on a sudden, in "a season of calm weather," the terrible suspicion bursts upon the men who are bankers, or rely on bankers, that these trusted documents have become empty words? Banking is a net-work of trust; let confidence be shaken at the core, and the earthquake at once begins to tremble. Demands for payment converge on the suspected houses; each creditor, at first in silence, struggles to be the first to make himself safe. Difficulties in meeting demands for payments next make their appearance. The firms, so strong in the respect of bankers, apply for help, and find it sparingly given, or perhaps refused. The sense of danger spreads; what is so contagious or travels so fast as fear? Houses which could have faced every claim, if the usual conditions of time were unchanged, are unable to find money on a sudden. Some great

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firm thus stops payment, and then springs up the burning feeling, who is safe? who can be relied upon for paying his debts? The banks press upon their debtors; but the banks are themselves in peril. The frightened depositor asks himself — What business has my bank been supporting? how many of its borrowers may fail? He hurries to withdraw his deposit, and we have seen that from the nature of banking, no bank can repay all its depositors in an instant. The city becomes paralysed, and for days the sounds of crumbling houses fill every ear. Even perfectly solid establishments become endangered, for their operations are largely built on banking accommodation, and in a moment that every-day resource is taken away from them. Frantic demands for assistance pour in on the banks from every side, and interest on loans rises up to fearful heights.

It is a common habit with traders and many writers to regard these panics as mere monetary events. They are treated as purely banking occurrences—as Stock Exchange phenomena—as ordinary results of speculation or gambling—as the products of errors about gold and currency. But such a view is radically mistaken. Such a crash of falling houses could never occur were not the ground beneath them undermined. We must seek for the cause of the storm in the field of action of the banker. Banking, it must never be forgotten, transfers goods from the hands of one man to those of another: what has the borrower done with them? is the vital question. This is no affair of money, though the loans are calculated in money. Has the trader, the merchant, the manufacturer preserved the wealth, the goods which the banker has placed at his disposal?

Or has he destroyed and lost them? The whole issue lies here. If the wealth is consumed, without being reproduced in another form, the banker must lose his loan; and if this has happened to many banks and banking accounts the crisis is inevitable. If the property is not destroyed, if the wealth exists, and has only changed owners, then there may be losses to individuals, but a general panic is impossible. One man loses, another will have won.

Hence to discover the cause of a crisis, what the second principal of the banker, the buyer of goods with the banker's advance, has done, contains the cause and origin of a crisis in the money market. In every case a destruction of wealth precedes the panic as its cause. The losses have been made before the crisis begins. It is the borrowers who have caused the wealth to perish; the convulsion in the city is the agony of the lenders. The essence of banking is to lend; when repayment has become hopeless, it is easy to conçeive the alarm which springs up in every lender, whether he is to be a loser. Hence a commercial crisis is the discovery and settlement of losses. Who is to lose? is the one universal agonising feeling which pervades the whole banking community—the depositors as well as the bankers. The violence of the convulsions is due to the suddenness of the discovery of the vastness of the loss and the painful uncertainty of the solvency of debtors, even those with the highest commercial names. The cause of a banking crisis is identical with that of a commercial depression; only the one comes on gradually, its movement is seen and understood, and the ruin it brings is accompanied by no uncertainty as to who is

the real loser. The spasms of lenders who have suddenly discovered that a multitude of borrowers cannot pay, and the fearful uncertainty who is solvent and who is not, constitute the agonies of the panic, and the violent paralysis of banking business which succeeds.

It is a common practice with many writers to ascribe a long period of subsequent badness of trade to a monetary crisis; but this is to put the cart before the horse, to mistake effect for cause. The bad trade is the consequence of the destruction of wealth which preceded and caused the crisis. If the wealth of the country had not been seriously diminished after the losses had been settled and the losers determined, business would have quickly resumed its usual course. It is because the means of the nation are reduced and the quantity of capital to be exchanged and to be applied to production diminished, that markets are sluggish, business flat, profits low, and industry moving at a slackened pace. It takes a long time to restore extravagant consumption of wealth—a very powerful truth, but one which is clearly apprehended by few only. And it matters not how that consumption is effected, whether by prodigal waste and luxurious enjoyment, or by the still more fatal, because more continuous and more excessive, expenditure of capital on machinery for future production. Excess of creation of fixed capital is one of the most dangerous and often most disastrous temptations which can assail a commercial people. It may be lawful to repeat here what was said in the article: "One Per Cent." in the *Contemporary Review* of April 1877—

"Here it is that the present depression indicates an amount of disaster, paralysis, and injury to the public

wealth with which no city convulsion can compare. If three banks out of four in the city, or as many mercantile houses were to fail, the injury would be slight by the side of the effects of these years of suffering, so far as these failures were not the direct consequences of wealth distinctly destroyed and unreproduced. The urgent need, the extreme importance of investigating to the bottom the character and causes of which so many nations have been now suffering for so long a period becomes abundantly clear.

"We are now brought to the root of the question, What then is that cause? Why is it that for some three years or more, so many countries are suffering under stagnation of trade, are complaining of reduction in business, are buying less and selling less, have only diminished profits to reckon up, are abounding with labourers out of employment, have steadily distributed ever scantier wages to their people, are reducing their comforts and enjoyments, are sending back emigrant labourers to their old homes from lack of employment, even amidst new lands and fertile, uncultivated fields? The explanation will certainly not be found in gold or in its movements from one vault to another, nor in pieces of paper, by whatever name they may be called, nor in any form of currency whatever. One per cent. has nothing to do with gold, nor has any one said anything so ridiculous. Nations are not made poor, nor their business stagnant, nor their mines and their factories shut up, nor their people thrown out of employment because the tools of buying and selling are in one place rather than in another. Such bright ideas may crowd in upon the minds of a frightened city when

seven per cent. threatens to become ten—but all talk about the reserve, and the circulation, and bank-notes, has sunk under one. Such a rate throws them at once upon the realities of commercial life, upon the state of industry, upon the substances to be bought and sold, not upon the machinery of exchanging. The cause lies elsewhere, it is not to be found in exceptional circumstances of an uncommon kind. No series of bad harvests had destroyed the population. No innovations in legislation, no change in our laws or in tariffs, had disturbed the habits and the confidence of traders. No Napoleon had poured forth Berlin decrees, or pounced on the goods of a great commercial people wherever he could find them, or cut off from large populations their supplies of articles of the highest importance, or had isolated mankind into untrading groups. The cause is simpler and deeper than any of these.

"That cause is one, and one only: over-spending, over-consuming, destroying more wealth than is reproduced, and its necessary consequence, poverty. This is the real *fons mali*, the root of all the disorder and the suffering; the creator of the inevitable sequence of cause and effect. Men have acted as a man who farmed his own land, and had consumed not only the portion of the crops which were his true income, and were a surplus remaining over after he had fully provided for all the agricultural operations of the next year—but had himself, and his dependents, devoured a portion of the seed corn and the breeding stock, had exchanged a portion of the produce, which was required for wages in the coming year, for foreign luxuries, or had consumed these necessary reserves on an excess of

drainage, however valuable in itself and ultimately enriching. Every one perceives the necessary consequences of such conduct in individual life; but when the general condition of a whole people is spoken of, the complications are so many and so great, the simple, universal process is so sunk under a multitude of intricacies, that few retain their hold on the ultimate elements which underlie all conduct, whether of a single individual or of a complex population. But a nation is only an aggregate of individuals. Whether cloth is made by a weaver or by the agency of a machinery which fills large factories, and employs the most diverse and the most numerous agents, the methods always remain the same in principle.

"If we bear this governing truth in mind, that analysis will always resolve the action of the single man, and the combined co-operation of a host of workmen under employers, managers, clerks, foremen, merchants and others into the same constituent parts, we shall be able to arrive at a clear understanding of one per cent. The first offender against the law that to consume more than one makes must land man or nation in difficulties and impoverish was America. She constructed an enormous length of railways, which she carried out into the wilderness. In no country, ever before or since, has such a rush into railway making been ever witnessed. Nor did the passion fall on railways only; docks and canals, elevators and warehouses, wharves and gigantic stores, were impelled forward by the same whirlwind. Under these impulses she consumed a vast quantity of food and clothing for labourers. She destroyed coals and machinery in making iron. She

fed and rewarded with the contents of her shops and stores a large army of promoters, engineers, managers, book-keepers, brokers, bankers, and other functionaries of every kind. What had she at the end of the operation? Long lines of iron carried over an universe of country, holes made in the ground and called tunnels, embankments, and buildings. What all these labourers and functionaries had eaten, drunken, worn, or used up as materials was gone for ever: the rails that replaced this consumption could bring no means of living till after they were in operation for a long period. The nation was plunged into poverty to the extent of what the railways had devoured in constructing. In the wilderness there was no traffic: and even if the lines had been made in a populous district many years must have elapsed before the shops, warehouses, and factories could contain the same identical wealth as the rails had destroyed.

"But railroads enrich; quite true: but so does drainage. If a man spent all his income in draining, what would become of him and his family? They must starve, unless supported by the loans or charity of others. So with the railways. If what had been consumed in constructing them had been applied to restore the food, clothing, and other things used up by their makers, no one would have been poorer, no one would have had to betake himself to short commons. America acted as the landlord who spent more than he could afford in draining; there was a far smaller quantity of other wealth in the country to support life and to carry on business; there were long lines of rails, and poverty.

"But railways are constantly made without inflicting

any injury on trade or on the public wealth: where then is the limit where their construction becomes mischievous, and brings down suffering on a people? This is the very kernel of the question. The explanation is very simple and very obvious; but it is most difficult to be remembered as a practical truth to govern conduct. Up to the extent of the savings of the nation, expenditure on railways can do no economical or financial harm; and these invaluable developers of wealth may be rationally acquired for the public good. Any outlay made out of savings, be it what it may, is innocent of mischief; it may do no good, but it does not impoverish. But what are savings? The surplus of wealth made over wealth consumed. If it is turned into capital and applied to increased production, the nation becomes richer; if it is expended on any luxury or any folly, the nation is where it was. But if the outlay, however wise and ultimately profitable, once passes the limits of saving, harm instantly begins; there is a loss of wealth which is taken from capital; the means of producing are diminished; fewer goods are made. There is less for merchants with their ships and their railway-waggons to exchange; there is less to divide amongst the people, poverty has actually set in, and it may easily advance to stagnation and distress. A rich man with £50,000 a year may spend £10,000 on foxhounds, or gamekeepers, or racehorses, or on servants, without lessening the national wealth; but, if he applies £100,000 to the improvement of his estate, with the certainty of great benefit to the whole neighbourhood later, if he cannot borrow, he inevitably falls into trouble

and real poverty. What such a man might do, America has done with railways for others; and she has not recovered from the consequent prostration to this hour. The departing emigrants, the depressed wages, the lowered profits, the smaller trains, all proclaim that there is less wealth in the country, less to divide amongst its inhabitants.

"That particular kind of over-consumption of wealth which consists in excessive investments in fixed capital generates effects which greatly aggravate the commercial disorder and the subsequent distress. The construction of railways or docks beyond what the savings of the country can afford creates consequences of an infinitely wider range and deeper mischief than would result from a loan to a foreign country of the same amount as the cost of these works. A nation living beyond its means, even when a useful end and not mere enjoyment is the object, exhibits many of the qualities of a spendthrift. It bubbles up with excitement. The large number of orders given for coals and iron raises prices, sends up wages, and enlarges profits. Imaginative estimates are spread about of the expanding prosperity of these trades, as well as of the many others which are associated with them. Iron mines are opened at heavier expense than what the actual demand for coal and iron justifies, thus increasing the destruction of capital. The retail, the shipping, and other trades feel the stimulus; buildings are raised, steamers and shops constructed, costly establishments formed, each in its turn setting other businesses in motion. Every one prospers; and every one makes arrangements, at further expense of capital for still

greater prosperity. Thus new railways, costing ten millions generate an excitement which may easily raise the outlay to twenty. So stimulating are high prices and high profits, so creative of more factories and workshops to swell them further. The collapse becomes all the severer—with the special disaster that this increase of outlay is a pure waste, a child of wild hopes.

"Nor does the mischief stop even here. Along with these cheery feelings and high prices personal consumption rapidly expands. Employers and workmen alike indulge in more expensive living; and this impulse acting on numbers, swells the waste to a still more formidable amount."

But what is to be done when the crisis is on? How is it to be alleviated? The settlement of losses cannot be avoided; they have been incurred, they must be endured by those on whom they fall. But that which is the specific calamity of a crisis, the panic, the suspicion, the alarm with its wild consequences, may undoubtedly be lessened. The great object is to prevent frightened people from rushing to demand payment of their debts from banks and commercial houses, to build up rational confidence where no special cause for distrust can be shown, so as to leave banks in command of their all-important resources for affording discount to commerce. The greatest force which can be brought to bear at such a moment is an institution like the Bank of England, whose excellent banking bestows on it unassailable credit. Men of practical experience urge the Bank to lend freely at such times. That it can carry out this policy the enormous loans.

thirty-three millions, of 1866 amply testify. It is remarkable too that there is always a well-defined tendency for deposits to increase at the Bank of England in crises. They are removed from suspected banks, whilst the suspension of mercantile operations leads traders to place their funds in its keeping for a while, thus enabling it to afford invaluable help to solvent yet momentarily embarrassed borrowers.

It would seem natural to suppose that in seasons of such pressure for borrowing, the Bank would gain a resource of great power from the suspension of the Bank Charter Act of 1844, whereby it becomes enabled to issue, at its own discretion, any number of Bank of England notes that it choses. Many a trustworthy trader, it would seem, might be saved by an advance of such notes. But, as was shown in the preceding chapter, the suspensions of 1847 and 1866 gave the Bank not a single additional bank-note beyond what it would have had under the Statute, and though in 1857 it acquired the command of lending £800,000 beyond what the law allowed, nevertheless, if the line of uncovered issues had stood at fifteen millions, as it does now, the suspension of that year would have been as great a nullity as it was in the two others.

But what shall be said of gold? Is not that the resource on which a panic-struck money market must ultimately rest for salvation? The sole motive for a reserve of gold in banking is the danger of deposits *being drawn out faster than the loans granted by the* bank return to its till, and thus it might come to a stoppage though perfectly sound and solvent. Under this law the Bank of England falls, like every other

bank; but does it appear that the Bank in any crisis ever ran a true and real risk of stoppage from the want of a sufficient reserve? The nearest approach to such a danger occurred in 1825. There was a run upon the Bank by depositors. For gold? In no way. The run was to procure the notes of the Bank itself. Depositors preferred to have their own funds in their own chests in notes rather than to leave them in the Bank. They felt they were safe if only they had the notes in their own houses. That was all. Were the notes gold? Nothing of the kind. They were tickets authorising claims for gold; but there was no security beyond the Bank itself whether any gold could ever be had. They were legal titles against the Bank; but those who hoarded them cared nothing of what reserve the Bank held. The run was so sharp and sudden that the Bank was saved from being compelled to declare that all its cash was gone by the discovery of a million of unburnt one pound notes. They were short of printed paper; that was the danger, and that only. Evidently their paper —without gold—sufficed as a reserve in a very serious crises; the credit of the Bank itself was perfect, and that was enough. Never, in this century, was the Bank so near stoppage as then. Mr Bagehot, the advocate of a huge gold reserve, distinctly admits that the panic of 1825 was stopped by notes. This admission, by itself alone, disposes of the alleged necessity of a large permanent reserve in gold. The same inference results *from the suspensions. Had they been realities, they* would have been saviours by paper and not by metal.

That the Bank of England was not saved by a

reserve of gold in 1866, at least in the opinion of its directors, we have already seen; for they lowered away their reserve resolutely in the face of a deliberate and unexampled expansion of their lendings. The poor gold was so neglected as to sink below a million. But there is a second fact of extreme significance which weighs with crushing force on the city theory, that the rate of discount is governed by the movements of gold in the reserve. I do not say that the Directors of the Bank of England are guided—simply—by the amount of their reserve or by its arithmetical ratio to their liabilities in fixing the minimum terms on which they will make advances. On the contrary, we are assured by Mr Gibbs, that this is not their principle or their practice.* They simply announce the figure every week; they publish no explanation of their views and motives. It is the outside world which imputes to them the movements of the gold, its flow and outflow, as the basis of their action. The Bank of England is a purely private bank; it conducts its affairs as it thinks proper; it lays down such rules for their management as it thinks will best promote its interests. But its rate of discount has long been held by the whole country as the commanding authority in the banking world. Other banks have been wont to raise or lower their terms of lending in conformity with its action.

But a new fact has been increasingly revealing itself in these later days, a fact pregnant with instruction. The Bank rate is becoming less and less the supreme governor of the banking market. Other banks often discount freely and largely on lower

* See Appendix, p. 487.

terms than those demanded by the Bank of England. Hence a remarkable spectacle has come to light —two money markets, so to speak, in the great city which is held up as the financial centre of the whole world, the money market of the Bank of England, the private and personal one of that bank; the second, the market of the remainder of the banking community. The rates of interest charged on loans and discounts in these two markets are often radically different. At the latter end of 1875 the Bank rate sprang up in a week or two from two per cent. to four. Gold had left for Germany —no other movement was visible in the market. The resources of the banks were overflowing; borrowers were few, bills scarce, and the difficulty of placing out their funds very embarrassing for bankers. An excess of supply of purchasing power over demand was the unmistakeable feature of the situation. But, from whatever motives, the Bank demanded at least four per cent. interest on its loans.

But a counter force had come into play. The other banks of England found that there was great difficulty in finding customers for their supplies. They had to deal with the stern realities of fact, with the actual condition of the banking business. To tempt borrowers to come in, they acted as all dealers do in over-stocked markets, they lowered the price of their wares, they consented to lend at one per cent. or more below the Bank of England. And then what was the issue of the battle of the markets? The natural market came off victorious. The real rate of discount paid no heed to the departure of the gold, but the Bank of England was compelled soon to submit to the law of the market.

It lowered back its rate, for its discount office was probably deserted.

So it happened again in July 1877. The Bank refused long to lend at a lower charge than 2 per cent., but the greatest bankers in London discounted at one. A little later, on September 10, the *Daily News*—a journal accustomed to insist on the doctrine of a rate regulated by the Bank of England's reserve of gold—was forced to write: "The position in which the financial world is placed at the present time causes attention to be again drawn to the anomaly of a fixed minimum official rate of discount. There was nothing whatever in the ordinary course of trade to justify the advance to 3 per cent. a fortnight since, and so far as the present outlook is concerned a further rise to 4 per cent., which appears possible within the next few days, will also be caused by circumstances entirely apart from commercial demand." Here the existence of the two money markets is distinctly proclaimed, and the very obvious and legitimate inference is drawn, that "the total abolition of the fixed minimum—that is, a minimum determined by the amount of the gold reserve of a single bank, would be a great improvement. Why, it may be demanded by a merchant, should he pay an enhanced rate of discount on his bills solely because Germany or the United States draws on the stock of bullion in the Bank of England." A most pertinent question. Why, indeed?

The *Times* repeats the same tale on October 20, a week after the Bank had raised its rate to 5 per cent.: "Borrowers are now as disinclined to take money as they were a week ago eager to supply themselves in anticipation of their wants." Here

we see the vague alarm with which the withdrawal of gold from the Bank filled the hearts of men who looked only at gold, and never gave a thought to the facts of banking, to the state of the two principals of all the banks, their depositors and their borrowers. But the real forces at work soon asserted themselves. "The consequence is a large excess of unemployed funds available for short loans at rates nominally of about 3 per cent." Within a few days, the *Times* adds, "the question of the reduction of the rate at an early date was under discussion," and yet the difference effected in the reserve was but trifling. Nevertheless the very journal which makes these comments on October 22, whilst it declares "that there are hardly any notable rates for short loans, so difficult is it to employ money," adds that the "general position is not one whit altered, and we are almost certain to see the Bank of England forced to go higher before we can see the tide turn. The utmost the 5 per cent. rate can be said to have done is to produce a short pause in the export of bullion. It has not perceptibly turned the exchanges in our favour."

It is not a little extraordinary that a writer who had just pointed out that the money market was gorged with supplies which it could with difficulty lend, should notwithstanding think it natural that the Bank of England should raise its rate still higher because gold was leaving its vaults, and the exchanges were still against England. And by what machinery is the Bank to prevent the export of gold by fixing a rate of interest on advances which no one will pay? The rate of 5 per cent. becomes a dead letter —it acts, it would seem, upon nothing, for it never

comes into living existence by the side of another market, filled with supplies working at 3. It can attract no capital abroad to the discount market, for that capital would have to go into the 3 per cent. market, an interest no better, probably, than what the foreigner could obtain in his own country. Why not say at once that the Bank of England has no connection at such times with the discount market, that its policy regards its own private interests alone?

The motives which influence the Bank of England's terms of lending are not identical with those which induce bankers to lend on totally different terms in the money market of trade. Why then should these personal motives of the Bank of England be proclaimed in every organ of the press, and, strange to say, by almost every man who lives on discount, as the rulers of those loans from banks on which every great commercial business in so large a measure depends? The ratio of its gold reserve to its liabilities is the Bank of England's individual affair: why should a change in that ratio be hoisted up as a signal of what rate of discount ought to be charged by bankers under different conditions of business?

But it is said by many that the Bank of England has charge of the bullion of the nation, and that it is its duty to take care that the country shall always be provided with an ample stock of that indispensable metal. But who or what has imposed this duty on a private company? How came it to be involved in this obligation to patriotic self-sacrifice? Did ever votes of its shareholders pass the resolution—"Think not of our interests, think only of our country's good?" They must

have been wonderful shareholders, indeed, had they done so. It may be that the directors of the Bank believe in the theory of a strong reserve in quiet times,—though they despise it in a money market crisis,—and act upon this belief when gold is leaving the country, to the extent of giving up the profits of discount for the sake of winning back the treasure to their vaults; in that case, no business at their discount office at 5 per cent., and their rivals working at 3 per cent., are the natural products of such a policy.

At the same time, I beg distinctly to remark that it is not intended by these observations to pass any judgment whatever on the policy adopted by the Bank of England of demanding a different rate of discount from that which prevailed in the general banking market. The management of the Bank's loans naturally and necessarily rests entirely in their own discretion. There are endless considerations of vast moment involved in the administration of so vast an institution which are unknown to the outer world, but which must powerfully influence the line of action pursued by its Directors. All that is here intended is to indicate that the Bank frequently carries out a policy of its own, no doubt called for by its particular position, and to point out some of the consequences which follow exceptional action.

In this matter of gold exported from England, it is always forgotten that gold, or currency, is utterly useless for every other purpose than for serving as a tool of exchange, and that if one nation for the time takes away an unusual quantity, because it chanced to have sold more to England than it has bought, it will soon find that

at has acquired a quantity of costly machinery lying idle, and will put it to its proper work of buying. Gold comes and goes, ebbs and flows internationally, precisely as sovereigns move up and down a single country. The want for a larger or smaller quantity of these tools of exchange varies in particular localities at different times; but that any people ought to part with their wealth to buy a metal in order to keep it locked up for ever is to counsel folly. It is impossible to acquit the French administration of the Bank of France of inexplicable conduct in massing up a gigantic heap of metal of sixty or seventy millions sterling unless it is influenced by some special motive undiscoverable by the outer world. That gold, exchanged for foreign goods, to be employed as capital, would enrich France, enlarge the income of the nation, and provide augmented necessaries and enjoyments for the people. The gold in the Bank's vaults is metal practically restored to the mine; only it has cost enormous expense to purchase it, in order to reduce it back to an unproductive nullity.

Another excuse often pleaded for raising the Bank rate as the stock of gold diminishes asserts that it is the duty of the Bank directors to protect the perfect solvency of the bank-note which circulates under its name; but this plea misconceives the position given to the Bank of England by the Bank Charter Act of 1844. For every note above fifteen millions there are sovereigns stored in the issue department. The directors are not called upon for a moment's thought about notes until the circulation is reduced to fifteen millions; below that point, the Bank would be obliged to pay out of its own resources gold demanded upon notes presented for pay-

ment. But the circulation never descends to so low a figure, and in all probability never will, so expanding is the business of the nation, and so increasing, in consequence, is its want for a supply of these particular tools of exchange. Any argument, therefore, drawn from the bank-note for strengthening the reserve of the Bank of England is completely irrelevant and idle.

The issue whether the movements of the gold, or the ratio of its Reserve to its liabilities rules the rate of discount admits of being decided by a test which cannot be contradicted. It is the rate of the Bank of England and its Reserve which are spoken of. Further, it is the directors of that Bank who fix that rate at their pure discretion. Can we learn on what ideas or what principles they act in fixing that rate?

Mr Hucks Gibbs, an ex-Governor of the Bank, tells us plainly, "The Directors of the Bank of England (as a body, I know, one and all, I believe) do not hold the principle of a rate governed by mere fluctuations of gold, and do not act upon it.'

"That they do not govern the rate is as plain as the sun at noon. The gold comes and goes and the rate very often stays unmoved."

"The amount of the Reserve and its ratio to our liabilities cannot be fixed by any hard and fast line but are capable of very wide variations."

After such information has been given authoritatively to the world, whoever henceforth speaks of the movements of the gold as ruling the rate of discount, asserts a fact which is untrue, and distinctly contradicted by those who make the rate.

APPENDIX.

BANK OF ENGLAND,
February 7, 1878.

MY DEAR PRICE,—I think I may sum up our long correspondence of the last three months in the following way:

You are now satisfied that you were in error in supposing that the Directors of the Bank of England in regulating their rate of Discount were guided merely and solely by the fluctuations of the amount of Bullion in the Issue Department.

Gold may, and does frequently, leave their bank, and that in considerable quantities, without its occurring to them that an advance of the rate is necessary. It frequently flows into their vaults without bringing with it as a necessary consequence a fall in the rate.

The sole principle which actuates us in fixing the rate of Discount—that is to say, the price of our loans—is the state of our Reserve, the amount which we have in our coffers wherewith to pay our debts and to meet demands upon us.

And in judging of the amount so disposable we have of course to take into account the probability of these demands, and the character of our deposits, and many other circumstances present or foreseen, that is to say, the mood of our depositors, the condition of our borrowers, their strength or weakness, the state of trade, of the harvest, of home and foreign politics, of the markets for produce, of the exchanges, everything, in short, which can affect the case.

Thus the amount of the Reserve, and its ratio to our liabilities, cannot be fixed by any hard and fast rule, but are capable of very wide variations in perfect consistency with the laws of good and safe banking.

But it is to be observed that that which in normal times has the most direct, immediate, and important action on the Reserve is the movement of bullion.

It does not, as I have told you, of necessity affect the rate of

Discount, but as the efflux necessarily diminishes, and the influx necessarily increases, *pro tanto*, our Reserve, those movements must be most carefully watched by those who have the management of the Bank of England.—I remain, sincerely yours,

HENRY H. GIBBS.

2 NORHAM GARDENS, OXFORD,
February 13, 1878.

MY DEAR GIBBS,—Your letter of the 7th gives me great satisfaction and pleasure.

We are entirely agreed as to the nature of the forces which ought to, and, as you testify, do govern the rate of discount of the Bank of England. They are those which you enumerate, taken in conjunction with the amount of your Reserve. I sum them up in the expression, the state of the banking market, and the character, at the time, of its supply and demand.

Your statement that "the movement of the bullion must be closely watched," combined with the declaration that "it does not necessarily affect the rate of discount," I most readily adopt.

It is a very agreeable fact to me to learn that the Bank of England's action in determining the rate of discount is founded on so accurate and so rational a principle. It conforms to the state of the banking market of which its Reserve forms a part.

I regret that I fell into the error of supposing that the Bank of England held the views of the Reserve and of the rate of discount which prevail in city articles and in commercial literature generally. My gratification is all the greater now in learning that it acts on the principle for which I have so long contended.—Yours very sincerely,

B. PRICE.

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